THE STATE DEBT AND THE NATIONAL CAPITAL

A NEW PROPOSAL FOR
RECONSTRUCTION AND REDEMPTION

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PREFACE

A STORY is told of a professor who was a psychologist. Desiring (in the manner of psychologists!) to labour the obvious, and to prove that it made no difference whether you looked at the things downside up or down or upside down or up, he had a pair of glasses constructed for himself which reversed his vision. He took them home and put them on, and he did much damage to the household crockery and linen at his meals, and on other occasions, in learning the use of them. And when he had learned the use of them, he proposed to discard them. "No," said his wife, "never again. You will go through no more periods of transition whilst you are learning how to behave. You will wear those glasses for the rest of your life."

After all, the poor professor was right, all the same. It does make no difference to the things how we look at them—unless we break them. It does make no difference if we say that Capital employs Labour or that Labour employs Capital (provided both do their

part)—unless we break the whole Industrial and Financial Machine by too rapid transitions from one point of view to the other. We are living in a transition period. The problems of which an answer is here attempted, require due regard to be had to the national crockery!

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THE STATE DEBT AND NATIONAL CAPITAL

CHAPTER I

THE PROBLEM STATED

THE TERM "NATIONAL DEBT" A MISNOMER

THE National Debt must be either repudiated or paid. Repudiation being out of the question, the burden of payment must be accepted. We shall understand best what this means if we first discuss shortly what the National Debt is.

The National Debt, then, represents the total of those payments which the State has made with money obtained on credit not yet redeemed. Usual as the name National Debt is, it is really misleading. A better name would be State Debt. The Nation as a Nation has already made the payments. The money is spent and gone—in munitions, wages, and the waste of war. But the Nation has obtained much of the money which it spent through its organized representative, the State, on credit, and so it still as a State owes it—although to far the greater extent it obtained the money from its own members and spent it on them, and not outside the Nation. It is the perception of the fact that war is paid for by a Nation actually as the war goes on, however the "money may be raised" by the State,

which has so often suggested the argument that wars ought to be financed out of taxes without the help of loans, for in the "real"[1] sense war loans come out of National income and they represent national expenditure of labour and material—so far as past accumulations are not used up in the process, and so far as help is not obtained from abroad. It is unnecessary to do more than point this out here.[2] It is unnecessary also to elaborate the reasons why a State is unable in war-time to make the facts of State finance accord with facts as above indicated of National economy. It is sufficient to say that ever since credit has been developed as a means of the National economy any State which has gone to war has used its credit to finance war, and has done so for the excellent reason that it is the cheapest and easiest way of paying for the war as it goes along, and also immensely extends the power of the Nation in war. England in her history and in the history of this war has fully realized and profited from this. The State Debt is the witness to the fact. It represents the amount which, in the opinion of responsible statesmen, could not be raised by taxation during the war: in other words, it is the total of the additional resources which the Nation was enabled to spend on war because the State was able to use credit—that is, to exploit for war purposes the financial machinery of the country. In ancient days the Nation with the longest purse could win the war; and it had to be a real purse—real money from a treasury. In modern times credit for war as for peace has replaced money, and has made a far more complete mobilization of National resources possible than in the past. Credit, however, must rest on facts. Bills drawn on the future must be met, and this thus shortly stated is the problem of the repayment of the National Debt.

[1] The word "real" is used throughout to distinguish commodities produced and services rendered—the real things—from payments and prices.

[2] See Scott's *Economic Problems*, 2nd Series, 1918, for a history of the controversy.

THE PROBLEM STATED

The Place of Finance

In facing this problem one thing has already emerged from the above opening remarks, and that is the immense power and importance of the financial machine through which credit is operated. Its power indeed is so great that many minds are frightened at it; many writers and speakers seem to think that it must be malignant because it is powerful, dangerous because it is uncontrolled, deserving destruction because it appears in its nature uncontrollable. These opinions must be dealt with in the proper place. It is enough for the moment to mention them only. They contain, it is true, an insidious attack on the whole financial mechanism, for this rests on credit, and credit is opinion—good report widely spread, and generally respected. Great indeed is the power of finance, and ultimately that power, since it rests upon opinion, must be exercised for good, or it will be destroyed by the very force (public opinion) upon which it rests. These remarks already indicate certain conditions which must be observed in facing the problems of the National Debt. It will be as well to state them at once explicitly.

Conditions for Use of Finance

1. The great power of credit must be used to the uttermost. It is a mighty force to be harnessed and used in the service of the Nation.
2. The financial organs in which it found expression in peace-time, which achieved the colossal task of financing the war, will be the natural organs to use for the purpose of the problem of Debt Redemption.
3. Since finance rests on credit, and credit on opinion, any scheme to be successful must take account of current and probable opinion. It ought, if possible,

to be in the line of natural development, reluctantly agreed to by conservative minds, scantily greeted as holding too little promise for the future by revolutionary minds, and (unfortunately, but necessarily having regard to the burdens) grudgingly accepted by the great mass of the community as in the circumstances the best or only thing to do.

Public Opinion

The Measure of Assent Necessary

So much for the general conditions as regards the world of finance for any scheme of Debt Redemption. As emphasized, from the financial side the test of any scheme is its effect on credit, and credit in the end means public opinion. And from a wider point of view the test will be the same. A scheme must be based on true knowledge. Political opinions in this connexion do not matter. They may change from day to day.. But some true and certain foundation has to be found beneath the shifting sands of thought, something which everybody will agree to—though they differ in everything else—as at least, or at any rate true (though not the whole truth) of the modern industrial economy; some general or particular view of the facts which can be accepted as true for the purpose of immediate action—just as we eat to live from day to day—though yet indeterminate as regards the future—just as no one knows his fate or future. "Yes," it will be said, "quite true, but quite useless. We have not got an educated community, and even if we could get one, we are not agreed in industrial (or any other matters) as to what they ought to be educated in." It is necessary to face this objection, for it is the central difficulty, and no good can come of hiding from it. Let us now pose it directly and concretely, and see what truth there is in it.

THE PROBLEM STATED

The Place of Capital in Industry

The difficulty for our present purpose really involves the place of capital in modern industry.

1. What is capital ?
2. How is it created ?
3. How is it maintained ?
4. What is its present use ?
5. What is its price ?
6. What is its future ?

Does any sure knowledge exist as to any of these questions, and is any agreement possible in the answers to them ? It will be found on consideration that for practical purposes there is sufficient agreement. It is upon the use to be made of generally accepted knowledge that disputes arise, and because of the disputes confusion arises as to the existence itself of the knowledge. We will take the questions in order.

1. *What is Capital ?*—Definitions have been so often attempted that this is not the place to hazard another, except in very general terms. We may say that it is "wealth expended for future utilities"—this would include all war, social, and educational expenditure; or we may insist that the expenditure must be "more or less permanently embodied in material things," a limitation which would exclude most war, social, and educational expenditure; or we may further limit the definition by reference to productive purposes—thus excluding so much national, municipal, social, and private wealth as is not used directly as a means for the "production, distribution, and exchange of commodities." All these definitions are accepted for certain purposes. There is no quarrel with the truth which they are intended to convey—namely, that capital in its "real" sense contains a provision for the future. It would be something if this statement could be more generally accepted for controversial purposes. For practical purposes, of course, every one acts on it.

2. *How is Capital created ?*—By the employment of

income in the manner already indicated. This again is generally agreed. But a great controversy arising out of Mill's definition [1] has existed as to the moment of its birth. This controversy is due to the ambiguity of the question, " How is capital created ? "—which can be interpreted as meaning " What motives make men create capital ? " We shall be compelled to refer to this question more fully later on, but for the moment too much emphasis cannot be laid on the truism that *capital is created out of income*, and *by the employment of income*. Capital thus created can be recognized for what it is—wealth devoted to social purposes and future utilities.

3. *How is Capital maintained ?*—The answer again is that it is maintained out of income. All capital is liable to wear and tear in use, and if this is not made good it will be destroyed. The part of the national income which has to be appropriated to this purpose is very considerable. The *Census of Production for 1907* puts the amount at 170 to 180 million pounds annually.[2]

4. *What is the Use of Capital ?*—It is on this question especially that a wiser public opinion is necessary. Every one agrees as to the answer, but the whole confusion has arisen out of the application to be made of it. Capital exists to make labour more productive. Capital with labour creates the surplus, and modern politics are so engrossed with the question of this surplus that there is a tendency to forget how it originates. We are indeed nominally past the days of machine-breaking riots, but we are a long way from the garden cities of socialistic Utopias, where everything is done by machine or forethought (*i.e.* capital) at a minimum cost of labour and trouble. Before, then, turning to the future, let us consider the past, and how capital has helped to create our present civilization. The following table (p. 7) shows what has happened in the past hundred years

[1] Mill, *Political Economy*, " Capital." "The distinction between Capital and not Capital . . . lies . . . in the mind of the Capitalist."

[2] Cd. 6320, p. 32.

in this country. It must help to guide us for the future. These figures (based on well-known estimates which have indeed been much canvassed in details) prove this at any rate, if we read them in large letters, that income increased ROUGHLY *pari passu* with capital, doubling itself in every (say) thirty years. If similar figures were taken for the United States of America a far more rapid increase would be shown all round, resulting in a heavier "horse-powered" and more productive popula-

Year.	"National Capital."	Proportion of National Debt to Capital.	National Income.	Income-Taxable Income.	Population.
	£	Per cent	£	£	
1812	2,700[1]	33	431[1]	—	18 (1811)
1845	4,000	20	646 (1851)	190[1]	27 (1841)
1875	8,500	9	1200	449	31 (1871)
1895	10,500	6	1600 (1891)	566	38 (1891)
1909	14,000	5	2030 (1907)	822	45 (1911)

See Welby, *Statistical Journal*, January 1915; Stamp's *British Incomes*, pp. 318, 427; Griffen, Bowley, *Census of Production*, etc.

tion. Our problem is to avoid a slow increase similar to that from 1812 to 1845.

5. *What is the Price of Capital?*—The price of capital is to be reckoned by the rate of interest. £100 in capital is £100; this is the commodity whose price is to be fixed. The price depends upon the demand and supply—that is, the rate of interest must rise if capital is relatively scarce, and fall if it is relatively abundant. What are called capital values of course move inversely—fall when capital is scarce, rise when capital is abundant. It is these facts which have given rise to the general belief that there is some relation between the supply and the price of capital. Outside the money market itself, and considered from the economic side only, it is

[1] 000,000's omitted.

very doubtful what this relation is, and the same amount of accumulation may take place at different rates of interest.[1] Historically the rate of interest has often been very low when wealth has been accumulating very fast, and this is due to the fact that saving may be directed either to produce an income or to produce a capital sum. It has been argued that "capital is just as willingly supplied at 3 per cent as at 6 per cent."[2] "Capitalist" society is not strengthened by exacting a high rate of interest, and a high rate of interest is not necessary for the existence of capital.

6. *What is the Future of Capital?*—The investigation made so far enables us now to consider the future of capital and lay down a general conclusion about it.

It is absolutely necessary to increase enormously the supply of capital. There is now too little capital from the National point of view. The proof of this is its high price—the high rate of interest. The problem is to find or make more capital. It may be stated thus: Taking the National income at 3500 millions at present prices, it may be estimated that there is a capital of 15,000 millions to support this income.[3] It seems, then, that if the National income is to reach 6000 millions (that is, be doubled, allowing for some deflation, in thirty years) not much less than an additional 15,000 millions will really be required. This, it is here contended, is the real problem before the Nation. In this is involved the whole question of the increased efficiency, great productivity, greater wealth, homes fit for heroes, and everything else which is promised in the new era of reconstruction. In this, too, is hidden the answer to the question of the redemption of the National Debt. A great spate of new capital has to be created. If this

[1] See Gonner, *Interest and Saving*. (Macmillan, 1906.)

[2] See Cassel, *Nature and Necessity of Interest*, 1903, p. 156.

[3] The *Census of Production for 1907* gives £2,030,000,000. Dr. Stamp puts private capital (September 1918, *Economic Journal*) at 16,000,000,000, but this includes the National Debt, which is "non-productive." The 15,000 millions in the text is intended to be related to the 1909 figures.

is done, the National Debt will be carried away and quickly drowned under it. This is the " real " question. The financial question will adjust itself to the realities. The industrial question will *ipso facto* cease to exist, for trade will flourish—yes, if (and this again is the difficulty) the minds of men are satisfied that the application of income is just, that rich are not rich at the expense of the poor, and that the product of industry is fairly divided. The question is posed. The answer, strange as it may seem, is already "tumbling at our feet." It can be given in a line. The State has now itself got to stimulate the creation of the capital necessary to accomplish these ends.

CHAPTER II

FIRST OUTLINE OF REMEDY

State Action in "creating" Capital

"THE State has got to do it." This is not the answer of despair, but, as will be shown, the reasoned result of the civilization in which we are living, possible, necessary, and unavoidable. The State has, as a matter of fact, raised and applied 7500 millions in five years for war purposes and waste. What is there absurd in requiring it to raise the same amount for peace purposes and production? It is a big problem, but the Nation is ready to face it bigly if it can be shown the way. It will be a simple answer, and the Nation will accept it simply when it sees that it is a real answer to present difficulties, and contains a hope and promise for the future.

To take the present difficulties first. There is not enough capital. There is a crushing debt. There is uncertainty for the future. The first question is the debt, but this is "really" a mortgage on capital and a charge on the future. And the wonder in men's minds is where is the capital to come from to pay the debt and guarantee the future. At present all seems left to chance, and this is indeed the fact, for in the past the creation of capital has been left to the laws of chance—*laissez-faire, laissez-aller*—upon the principle that enough capital will be made if only things are left alone. These principles do not guarantee us now. Civilization is passing, as is generally recognized, from

the competitive to the monopolist era (whoever finally is to own the monopolies). A corresponding transition stage is called for as regards the creation of capital, which lies at the root of civilization's maintenance and progress, and the first step is for the State to take some control of the creation of capital and of the rate of interest charged for it.

The answer so far given will no doubt have aroused in most minds both hostility and alarm. "More State interference," some will think. "A State endowment of capital," others will suppose. Neither of these alternatives is necessary, as will be seen when the answer is elaborated, and to make the discussion clearer it will be best to put the answer concretely and then deal with the objections which may be imagined against it.

First Outline of Proposal

It is proposed, then, that the State should deliberately help to create new real capital by intercepting and directly or indirectly applying part of the National income for capital purposes—in the first place mainly by way of the redemption of debt. Let this be done through the ordinary taxing machinery. Let us suppose that 200 millions a year be collected in this way for twenty to thirty years, and that the persons from whom it is so collected receive in exchange every year State Bonds due in full in twenty to thirty years and carrying 2½ per cent interest.[1] Let us work out in detail the effects of such a proposal upon finance, industry, trade and the individual taxpayer and political opinion, and then consider more closely whether some such scheme is practicable—what amount should actually be fixed, and how it should, in fact, be collected. Round figures will be used throughout in this preliminary discussion, since this will make it easier to discuss the general principles involved.

[1] It is possible, perhaps, as indicated later, to dispense with compulsion. See page 42.

The particular reasons for this proposal will be developed in the course of the subsequent argument. The broad general justification for it may be shortly stated as follows. The debt ought to be held equally, or at least taken out equally—whatever "equally" may mean, and however the word may be interpreted in the State's fiscal machinery. It ought to be the first holding of every citizen who holds anything. It ought to be at the lowest possible rate of interest, for the citizen ultimately must lend or give his all for nothing. During the war it was impossible for loans to be issued on these principles, and it is therefore right at the earliest possible date to distribute the burden of the debt in accordance with them.

It will help the reader in understanding the proposals which follow if he will remember the following terms, which will be used throughout the rest of this paper.

The proposal is for a yearly "*forced loan*" which is spoken of as a "*Redemption Levy*" or "*Levy.*"

The "*amount of the Levy*" is the sum raised by it.

The amount is the same as the total "*nominal*" or "*face value*" of bonds called "*Levy Bonds*" issued for the Levy.

The Levy Bonds carry interest at less than the market rate. Those who pay for them pay the full "nominal value," but can only sell them at first at a loss. This loss is called the "*apparent burden*" of the Levy.

The Levy Bonds are to be paid off in full after a fixed period.

The Effect on

1. *Finance*

First, the financial world should not object to the scheme if it is practicable. The scheme would pay off 1000 millions of the war debt every five years, thus flooding the market with new money, and it would release an amount increasing by 5 millions every year

of the charge for interest (or say 4 millions (only !) if something was retained for Sinking Fund or other purposes). A great stream of new money would thus be set going, ready to pour in to meet any new purpose for which capital is required. The scheme in fact guarantees the stream. Week by week the money would pour in, and, as will be shown later, the volume of the flow will be a constantly increasing one. It is hard to think of a financial house which would not welcome these proposals, for they carry with them a steady decline in the rate of interest, a steady appreciation in the value of all securities. So far the scheme does indeed too much present the aspect of an endowment of capitalism ! We shall see later whether this is the true view. It is sufficient to record here that the scheme must work favourably for financial houses and financial business. The current will be set running the right way—and in finance it may almost be said that this is everything.

2. *On Trade*

Next, as to trade and industry—how will they be affected ? If the analysis already given as to the place of capital in industry is worth anything, a scheme which will set money free for capital purposes can only be for the good of trade. The only question (it may be conjectured) with which trade will be concerned will be to see that the income collected for application as capital does not come in undue proportion from trade income. In other words, the trade question can be left to itself. That a scheme which pays off the National Debt and sets capital free must be good for trade will be assumed as axiomatic, and further discussion thus avoided.

3. *On the Individual*

Next, to face at once the individual, who is in this case the taxpayer, in his own den. The State pro-

poses to fleece him—indeed, upon any view it has got to do so. How will he face the prospect here held out for him under the head of National Debt Redemption? This question will be examined first without reference to the particular method which may ultimately be adopted of "collecting the wool."

First of all we have got to get the taxpayer to face the facts. He prefers, as a rule, to turn his back to them. Indeed the National debts and liabilities are already such a load upon his back that it is not surprising if he can seldom be induced to turn round upon himself and have a look at them! Twisting about under the load makes it no easier to carry. The only question is how to make it as easy as possible.

Now if the effect of the proposals here made has been at all correctly analysed so far, we may approach the taxpayer already with some degree of confidence. "Come," we may say to him, changing the metaphor, "you have got to take this medicine, but it is going to be good for you; it is a sort of magic. You will grow stronger year by year and want to take more and more. All your property also will start growing. See how shrivelled and small it is now. It will all grow big and strong again. All you have to do is to pull yourself together and swallow the mixture!"

Words, however, will not console him. He will want facts. Let us see, then, how each class of taxpayer is in fact affected, for when we examine the problem of the taxpayer it will be seen that he cannot be treated as an abstract personality. Abstractedly conceived, every taxpayer is charged with a due proportion of the National Debt and holds against it a due proportion of national wealth. The problem indeed would be quite a simple one if every taxpayer had actually taken out and possessed his due proportion in this abstract sense of the National Debt. If things were as simple as this, the solution would be equally simple. It would merely involve cancelling the National Debt and cancelling the corresponding National Debt charges and, everybody would be just as well off after as before the

transaction. But actually the individual taxpayers have taken out (1) more, (2) less, and (3) neither more nor less than their exact proportion measured in taxable capacity of the National Debt. Let us see how they will be affected by the proposals here put forward.

Three Classes of Taxpayers

1. We need not linger over the case of the person who has taken out his exact share of the debt. He is not "really" affected one way or another by any scheme for its redemption. He may be put to trouble, have to fill up forms, receive and pay away more money, but his "real" position under any scheme is exactly the same.

2. Similarly with the person who has taken out more than his exact share. He is the happy man under any scheme for redemption. He is paid off in full and reinvests his money. He sees also under the proposals here made a steady appreciation of the capital values of all his other wealth. In fact he profits so largely by repayment, that undoubtedly the tax-gatherer will see to it ultimately that he makes some return for it in the form of larger payment!

3. We come to meet the third "wave"—the case of our unhappy fellow-citizen who was unable to take up war loan in his due proportion, and is still more unable and unwilling to bear a share in its redemption. How will he greet the proposals here made for the wholesale devotion of his income (will he, nill he) to capital purposes? Can he afford it, in fact? Can he (and this is a more difficult task perhaps) be persuaded that he can afford it?

The case is perhaps most simply examined if we treat War Debt Redemption as primarily a charge on the capital of the country. Upon any view, even upon that of the most extreme supporters of the Capital Levy, there is a fallacy in so treating it—so long as any taxation at all is collected from other sources than capital—for even with the simplest and most direct

Capital Levy the burden of taxation in other directions would be different through the mere existence of levy itself. It is impossible "really" to treat any part of the State's finances as separate and independent from the other parts, but it is possible to adopt financial expedients under which different parts will generally be regarded as separate, and it is certainly convenient in the case of the National Debt, which is in form a capital charge, to treat the redemption proposals as a Capital Liability.

We will suppose, then, that we have to persuade an individual owner of capital worth £100 to agree to these proposals, which amount (we will suppose) to taking an additional 5s. in the pound year by year from his income, and giving in exchange a bond of the face value of 5s., but due in between twenty and thirty years, and carrying interest at the rate of 2½ per cent only. He will say at once that he is robbed of 2s. 6d.—since Government credit is at or about 5 per cent. What answer is to be given to him?

A Fourfold Answer to the Individual

The answer is fourfold—

1. Taxation will be remitted to the extent at any rate of the charge which would be imposed for Sinking Fund purposes to which he would otherwise be subject. *It will be shown later that the whole apparent burden of the levy could be remitted.*

2. The new issue is worth, of course, intrinsically more than half its face value. Its immediate market value on a 5 per cent basis, treating it as repayable in twenty-five years, is £64 15s. 4d.

3. Its probable value is even more than this. For consider the effect of the proposals. The Government would be helping to make "new money" on a great scale, and the new money would have to find investments. No doubt this would be easy at first. The 200 millions of the first year would not go far against the immense

present need. But the 200 millions will be coming next year and the year after, and the years after that. All capital values taking a long view would be bound to appreciate, and the new bonds should therefore appreciate with them, to adopt an Irishism, before they were issued. It is extremely difficult to form an estimate how much this appreciation would be at first, clear though it be that the results in the long run of the whole proposals would be to bring about the appreciation. The value of the new bonds would be fixed finally by some regard to these results, but since the immediate market in the bonds may not give effect to these considerations, and in order to adopt for the purpose of this paper a very low estimate of their value, their value will only be stated here as 60 per cent in spite of the considerations urged under this and the preceding heading. The answer to the disgruntled taxpayer is, then, that he is not robbed of 2s. 6d. by the levy of 5s. but only of 2s., *even if no regard is had to taxation remitted.*

4. But this is not the whole of the answer, even though it might be enough. We have supposed the charge to be assessed on capital and that our taxpayer is possessed already of some investment. If he bought it before the war, he has had the melancholy pleasure of watching it depreciate before and during the war possibly by as much as (say) 30 per cent. Now the picture is a different one. He is given the certainty of seeing the lost value recovered. He is given back his 30 per cent. Again it is difficult to estimate the annual increment in value. Again, all that is clear is the result, namely, that the 30 per cent, or say £30 on £100, the present value of his investment, should be gained in the thirty years. Suppose that again, for the sake of simplification, we assume that the increment is £1 a year. We have seen that, apart from taxation remitted, the State appears by the 5s. levy to be taking from our taxpayer 2s. in the pound on his income. If, however, the above illustration is at all correct, it will only be where his capital is yielding a very high rate of interest that he will be on balance

a penny piece worse off by the above proposals.[1] Witl this conclusion—which some readers may find so startlinş as to be absurd—we may now leave the rough outlin(sketch of the proposals in this book, and first (Chap III) consider some general objections, next (Chap IV) compare alternative proposals, and then (Chaps V and VI) put forward a concrete proposal, based oı figures, of what is actually possible. When this ha: been done it will be possible in final chapters (VII to consider the question of the growth of real capita and the effect of the scheme on saving, (VIII) to reviev the general effect of the levy, and (IX) discuss th(general arguments for redemption.

[1] It will be said that the accretion in capital value is no income, and cannot be realized and treated as income. It is however, a gain which must not be left out of account. See latei

CHAPTER III

GENERAL OBJECTIONS CONSIDERED

I. "CAPITAL CANNOT BE CREATED"

THE proposal, it will be said, is absurd. Compulsory creation of capital is, it will be argued, impossible, for capital is created by saving, and you cannot make people saving by Act of Parliament.

This objection rests upon a misunderstanding. New capital, we have seen, is created in the "real" sense by the application of income. It is only upon the assumption of the *laissez-faire* economists that the creation of capital is an act of the mind of the individual. The objection, therefore, has no truth in it so far as the main proposals here made are concerned. Under these proposals one person's income is taken to pay a capital debt which is owing to another person. That person gets the new capital. But to him it is not new. It is his existing capital. He has already saved it. He will merely reinvest it. It can hardly be assumed against the scheme that he will be so angry at being paid off in full that he will at once become a spendthrift of his capital, *and it is only to the extent to which this actually happens, and to the extent that he (or others) reinvest in the new bonds,* that new "real" capital will not be created. This topic will be again considered in a later chapter.

Further, it cannot be right to assume that all the holders of the new bonds will realize them and live on the proceeds. They will not indeed be required to keep

them, but will have inducements to do so in the certainty of appreciation. And if to this it is objected that the argument thus does assume that people can be made thrifty by Act of Parliament, the answer to this extent is—Why not? The State has got to practise and enforce economy.

2. "There is a Vicious Circle"

The proposal will be said to be ridiculous. The story will be told against it of the man who fed his dog with slices off the dog's own tail, or of Baron Münchausen, who lifted himself out of the ditch by taking himself up by his own hair! And again the answer to a very great extent is—Why not? Is it not the fact that the National Debt is in a very real sense a fiction of finance? The war has, we have seen, "really" been paid for. The debt survives as a record of it in financial terms, and all that is "really" needed is to get out of the folds which bind us, and not go round and round in the circle which is involved by levying taxation to pay interest and using interest to pay taxation. What is here proposed is in this sense a mere disentanglement. So much of the criticism is, therefore, in substance just. To this extent the proposals are identical, as will be seen later, in principle with the main assumption upon which the Capital Levy is based, and which does so much to recommend it.

But in a very important respect the objection is substantially false. The scheme suggested provides, it has been shown, new money, which will become new real capital—real food for the dog in the fable. And it provides this food (to continue the metaphor, and when regarded from the other side) in an appetizing form, and it is food which will improve by keeping, and can be stored away against a "rainy day."

3. "More State Action"

The proposals will be said to be dangerous and destructive of liberty and enterprise. They involve, it will be said, the control by the State of finance.

We may note that this objection already assumes that the scheme is workable. Let us examine what follows from this assumption, although it would almost seem sufficient for the purpose of this book merely to produce a scheme which will hold the prospect of paying off the debt, without being frightened of the consequences which follow from such a happy result! It is clear in considering this objection that criticism will come from two sides. On the one hand, there is the school which holds that all State action is evil. Partisans of this view-point will urge that machinery is being created to enable the State to reduce artificially the rate of interest and enhance capital values: that if the experiment succeeds, there is no limit to it, for a further series of forced loans will follow the first one at a still lower rate of interest; that the State will be tempted to use and will use the cheap capital which it can obtain by compulsion for its own purpose in social and industrial experiments, and thus "fritter away" the resources of the Nation which ought by rights to be left "to fructify" in the pocket of private owners. On the other side, partisans of State Socialism will be ready to welcome the control of capital and all the results dreaded as evil by their opponents, but will criticize the proposals as too conservative and too moderate. Supporters of Utopias "made to order whilst you wait" will not be willing to support a scheme which, though halving the interest charge, asks them to wait for "thirty years" before getting rid of the capital. "Why," they will say, "at the end of 'your thirty years' you will still have the whole debt to redeem; you will have created many additional thousand millions of private wealth; you will have put back the millennium of the Socialized State."

These two schools must (it need hardly be said) be left to answer each other and fight out the result in the field of politics. It is to them that the little fable in the Preface to this paper is mainly addressed. The transition period in industry for no class will be an easy one. Balances will be struck. Compromise will be inevitable. In the past the balance has been struck, a level has been found by allowing a free flow to supply and demand. In future we may anticipate that more and more the State will claim the right to regulate the flow of capital. But it is worth while to examine how far the State will still be limited in its action by economic forces.

Limitations implicit in Proposal

(*a*) The State will be bound by necessity in the amount of new capital which it can levy. The scheme is not capable of unlimited application, for an unlimited amount of capital cannot be created in any year. The Nation must live from day to day as well as provide for the future. By making a Levy for the application of income to capital purposes, the State limits the amount of income available for daily needs. In this sense the State can and does enforce compulsory saving whenever it takes income and applies it to future purposes—for there is thus less income available for ordinary spending. Under State compulsion the savings effected are not individual nor based on the individual will, but are spread out over the whole Nation by an increase in price, carrying with it a smaller consumption of all commodities and services affected. This is very "real" limit, which has to be borne in mind when the proposals are considered in detail.

(*b*) There is probably a limit to the possible reduction of the rate of interest, though it is very uncertain what that limit is. If no interest is allowed on the bonds, the Levy becomes hardly distinguishable from ordinary taxation. If the bonds and the new State credit are to be based to some extent on the individual

" will to save," the interest must be made such as to be acceptable to the individual, and to induce postponement of consumption. There are very strong reasons for saying that this rate cannot be less than 2 per cent.[1]

(*c*) The scheme contains within itself its own balancing factors. Rash experiments in State Socialism, if the State were tempted by the possibility of obtaining money at nominal rates to throw money away, will bring with them their due and proper reaction. It will still be true that if capital is wasted or wanted, the rate of interest will rise and the value of invested capital will fall. These effects will still produce their usual results on trade, industry, and finance, and by increasing directly the weight of the forced Levy on every individual affected, make further waste more closely watched and the annual budget more difficult to balance. Enough though has already been said to make the further elaboration of this theme unnecessary. Socialistic experiments will be possible, it is true, on cheap money, but (if they fail) the money will cost more next time.

4. " Driving Capital Abroad "

It will be objected that to force down the rate of interest will drive capital abroad. This objection has already become familiar in political controversy, and not much space need be devoted to it here. There is, of course, a want of definiteness about the statement of the objection which has always made it more plausible than it in fact and " really " is. It may mean that " money " always goes to the best market; if the rate is low in London it goes to Paris, New York, or Berlin. This is, of course, true. England to a large extent owes her financial position in the money market of the world to the low rates of interest formerly prevalent in

[1] See Dr. Cassel's book. He gives a very conclusive argument to show that saving ceases at $1\frac{1}{2}$ per cent. The topic is beyond the scope of this paper.

this country. Cheap money in this sense would (it may be expected) again do the country no harm. But the objection is really intended to mean that investments will be made more and more abroad if the rate of interest is too low here, and the answer (without, it is hoped, touching on controversy, for it seems now to be admitted) is that such investments can only be made by the export of goods. Existing capital cannot be (except to quite a limited extent) carried away. It is some part of the current National income which must be used for the purpose, and it has now to be asked whether a serious amount will be available, and will be used for this purpose ?

It is clear that at the inception of the forced Levy proposed all repayments of the National Debt become available for reinvestment, and it is probably also clear that they will all be needed in this country, and be able to find very quickly most remunerative investment. The objection is, therefore, a remote one. Again, it also assumes that the objects aimed at will be obtained, and terrible results follow to the National economy. It has also to be pointed out that under the forced Levy for the first time the State will ultimately be able (if it wishes to do so) to a large extent to control the application of income to capital purposes either in its own hands or by means of restriction in the hands of others—and that this is a power which it will in any event (if prophecy may be permitted) attempt to claim and exercise, whatever party or whatever school of thought may come to control the machinery of Government.[1] The objection, therefore, need not detain us any longer, and it is time to pass from general objections to a comparison and contrast of other proposals for redeeming the War Debt.

[1] The control was attempted in the war by the Capital Issues Committee, and the first precedent has thus been made.

CHAPTER IV

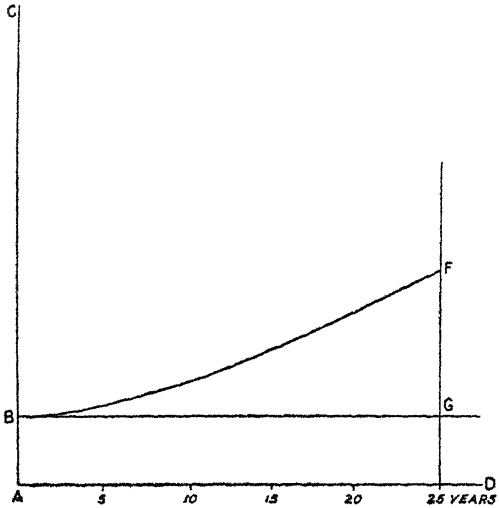
COMPARISON WITH OTHER METHODS

THE SINKING FUND METHOD

THIS method needs no explanation. The main objection to it is the old one, that it is too dull and unimaginative, but it is worth analysing what this objection in substance amounts to. In substance what the Sinking Fund method does is to treat the State accounts for the year as a whole standing by itself, to ignore the fact that the year does not really stand by itself, and to make no use whatever for State purposes of the great organ of credit which has evolved with the growth of the Nation, and which now plays so great a part in all ordinary transactions. The point of view adopted in relying only on a Sinking Fund is the point of view of the Mid-Victorian era—when *laissez-faire* as a doctrine dominated all minds, when it was assumed as self-evident that the State must never interfere with trade or finance, that it was obvious that wealth grew fastest under private control. This doctrine has received rough handling lately. This narrow view of the State has disappeared with the extraordinary growth of the Government machinery. This self-sufficiency of private enterprise has ceased to be a fact at a time when so many trades have been controlled or financed by the State. It is quite certain that the Sinking Fund method will have no supporters, if only any alternative can be found for it.

It is easy to represent diagrammatically the essential

difference between the Sinking Fund method and the method here proposed. The diagram for a Sinking Fund is the diagram of an annuity upon the 5 per cent table.



In this diagram the Sinking Fund payment is measured each year along the line *A.C.* by the line *A.B.* Similarly the relief afforded by the compound interest is measured each year along the same line, and in the last year shown of twenty-five years is represented by the line *F.G.*

Under a Sinking Fund it is of course impossible to bring into present computation this future relief, for you have got to pay the *A.B.* year by year if you want to get the interest *F.G.* in twenty-five years. But under the levy method the future relief may now be capitalised. As much of it as prudence admits may now be taken to relieve present taxation, and because it may be so taken and because relief may be so given, the total of the

resources for the extinction of debt are enlarged as will be shown in the "anticipatory Scheme" set forth later.

The Capital Levy Method

This method has already been several times alluded to. It is at present rather an idea than a plan. The idea behind the Capital Levy as has already been indicated is (it is claimed) incorporated in the proposals here put forward. It is that since the National Debt is a charge on the National Wealth, debt and charge can be "cancelled out" against each other. Reduced to a formula the idea is—

National Wealth $= x + y$.
National Debt $= y =$ National Debt Charge.

Then we may say—

$(x+y) - y = x$: where the first "y" is the National Debt in capital form, and the second "y" is the National Debt charge.

The obvious criticism of the formula is, that it is much too simple to be true. The facts in practice are not like it. Each individual's case is different from his neighbour's, and changes from day to day. State machinery can never overtake and record the facts as they exist when the record is made. Long before the record is made the facts are already changing, and have changed. And even if this was not so what certain basis of value is there from man to man? Where is the measure of justice which will mete this mountain of debt so that each citizen may take and carry his appropriate ration? The outlines of several schemes undoubtedly have been put forward. It is no part of this book to follow them through in detail, but since the proposals here made may be said (and truly said) to embody to some extent the "idea" behind the Capital Levy, it will be well now to examine how far the present scheme is open to the objections already urged against that proposal.

Objections to Capital Levy compared

1. *The Escape of Personal Income*

The objections first to be considered are objections of principle. The first and greatest difficulty to the Capital Levy is the escape of personal incomes. These incomes, the larger they are, the more they represent a return received for capital invested by the individual in fitting himself for his profession or employment. These incomes also are clearly charged as much as capital in material things with debt interest and redemption. Professor Pigou (*Economic Journal*, June 1918) has very frankly faced the difficulty and discussed the possibility of an actuarial addition to the personal income-tax as a set off against the obligation. His suggestion has not received a welcome. Moreover, it is, in principle, to desert the doctrine of the Capital Levy, and to substitute for it in part an annual tax for a limited period. Now the present proposal is throughout in fact an annual tax, and a part of the annual budget. The objection, therefore, misses the mark so far as it need be here considered, for due weight can be given to it in framing the annual Budget and fixing the annual Levy.

2. *The Danger of Repetition*

A second objection to the Capital Levy is that it would be repeated. This would necessarily be the case if a partial redemption only were first effected with moderate success. No logic or force would be left to prevent a second Levy, And it appears to be conceded, or hardly denied, that repetition of the Levy would be bad for trade and finance, prevent the accumulation of capital in this country, and drive foreign traders away from trade in this country. This objection again does not hold here. Repetition of the Levy here pro-

posed in a new form after the collection of the first £7,500,000,000 would be no worse than the necessary evil of the repetition of taxation from year to year—and in some ways it would be better. The Levy helps in the creation of new capital. In this it resembles the Sinking Fund. Debt paid off becomes new money available for employment in industry. Repetition would merely increase the amount of new money. If repetition of a forced Levy at a merely nominal rate of interest were attempted, then that would in effect be like a Sinking Fund proposal—on a scale which some persons considered excessive. There is no protection against excessive taxation of any persons or class except the common sense and sense of justice of the whole community.

3. *The Taxation of War Bonds*

Another objection is that the Capital Levy is unfair to holders of War Bonds, etc., who made every effort as asked by the State to save during the war, and who are thus rewarded by (in substance) the confiscation of part of their savings. Why should we pay, they say, and those who saved nothing pay nothing? This objection is really partly the repetition of the complaint already dealt with that the Capital Levy shifts the whole burden of the war on to capital wealth, and partly a plea for special treatment for a special kind of saving. It is enough to grant here that, while the National War Debt is subject to taxation, it has some claim to special treatment. It will be seen that there would be no difficulty practically in allowing the claim.

4. *Professor Scott's Arguments*

A further group of objections is summarized by Professor Scott (*Economic Journal*, September 1918) as follows:

"Ricardo's representative man would be trebly

damnified . . . by the Capital Levy—(*a*) by the avoidable increase in taxation other than that for interest, (*b*) by losing the ultimate benefit from conversions, and (*c*) by excluding himself from the possible decrease in the rate of taxation through the increase in the taxable resources of the country."

These objections also all fail here. (*a*) The first is based upon the view that high expenditure by the State is "disciplinary," and disciplines the citizens to prevent waste because of the burdens of taxation. The Redemption Levy here contemplated is part of the annual budget, and will therefore have this due effect. (*b*) As regards conversion, the Redemption Levy is from one point of view a forced conversion, made easier by the creation of new capital. It need hardly be said also that if the Levy was successful, full advantage would be taken by the Chancellor of the Exchequer of any opportunity of anticipating the period contemplated when the Levy was first introduced. Thus to recur to the figures already given by way of illustration—if the State succeeded in bringing about an accumulation of 1000 millions in five years, it might be able at the end of five years to refinance a considerable part of its indebtedness at 4 instead of at 5 per cent. And so on during the whole period of the Levy. Ricardo's representative man would therefore get the full benefit of the reduction in the rate of interest on conversion if he assented to the forced Levy here proposed for him. (*c*) He would also get the benefit, and an increased benefit, from the increase in the taxable resources of the country. We have seen that the Redemption Levy would itself help to create new capital. This is to increase the resources of the country. Under a Redemption Levy, if the rate of levy were not reduced, the amount collected would increase from year to year, for the new accumulations and new wealth would be leviable, and the Levy would be easier and easier to bear every year, for every year the ordinary rate of interest would be falling, every year the market value at the time of levy of the new bonds would be greater

than in the previous year. Thus we imagined that $2\frac{1}{2}$ per cent bonds for payment in twenty to thirty years would at the commencement be worth 60 per cent of their face value. Is it unreasonable to suppose that in ten years the State credit in the ordinary market would be at 4 per cent instead of 5 per cent? If so, in the tenth year the bonds for that year would be worth £76, 11s. 4d.; and even if again[1] no regard is paid to the market estimation of the appreciation in the period for which the bonds are issued, and a lower value than the immediate value is taken, the new value may be put at 70 per cent, a gain in ease for Ricardo's man of 10 on 40—so long as the then Chancellor of the Exchequer did not then consider that he was escaping too easily altogether, and decide to lower the rate of interest on the then current Levy![2]

The most serious objections on the ground of principle to the Capital Levy have now been considered. It has been seen that the annual method here proposed avoids them all. The Capital Levy, however, has so much to recommend it in its apparent equity and convenience, that the above objections might not prove fatal to it, if they were not accompanied and reinforced by practical objections of a most serious character. With these arguments we are not concerned here. They consist in emphasizing the difficulties of assessment, the "impossibility" of the payment of a Capital Levy, and the collapse of the "interim budget." It will be time enough to consider these objections, which Mr. Austen Chamberlain has apparently accepted as conclusive, at length in the next section, as we discuss in detail the method of putting into effect a Redemption Levy of the kind so far as yet only roughly indicated.

[1] See No. 3. above of the "Answer to the Individual," Chap. II.

[2] The "apparent burden" is 30 per cent instead of 40 per cent, and a 5s. Levy imposes an "apparent burden" of 1s. 6d. instead of 2s.

CHAPTER V

THE SCHEME IN DETAIL

IT is hoped that enough has been said by now to make principles clear. It is time now to apply them to the very complicated subject-matter. If the reader so far has yielded a somewhat reluctant assent to the arguments of this book—and this, no doubt, is a big assumption—he has done so, no doubt, with a reserve in his mind that he has got to be convinced (and will not be convinced !) that the scheme is in detail practicable. An effort will now be made to do this first by taking each part of the scheme separately and making a precise proposal, and, when this has been done, by a final review of the scheme and its effects on finance, trade, the imperial connexion, education, and public opinion.

THE OBLIGATION TO BE ISSUED

(a) *The Rate of Interest*

It is clear that a great variety of opinion is possible on this topic. For instance, the rate of interest on the new security might be 4, 3, 2½, or less per cent. It is even possible to construct a scheme under which no interest is paid on the new obligation, and such a proposal has, it would seem from a note in the *Economic Journal*, actually been put forward in Germany (by Heilbruner in the *Berliner Tageblatt*, 2 June 1917). Such a drastic measure is not necessary in this country.

But is the $2\frac{1}{2}$ per cent already outlined too burdensome? For it is clear that proposals will be judged by the burden which they impose. An answer will only be made provisionally and as follows. The simplest possible scheme, it will be assumed, is the best. If a higher rate of interest than $2\frac{1}{2}$ per cent were chosen, say 4 per cent, the logic of the situation would demand that it should quickly be followed by another Levy at a lower rate, and so on till the lowest possible rate were reached. Such proposals would bring uncertainty, though there is much otherwise to recommend them. It is clear that with a 4 per cent scheme more could be collected, the apparent burden being less, and that most desirable time perhaps could be more quickly reached, when the whole debt could be "converted" from a 5 per cent to a 4 per cent basis—with a saving of one-fifth of the interest charge. This consideration alone may be by itself conclusive. On the other hand, a $2\frac{1}{2}$ per cent basis is deliberately worked out both for the sake of simplicity and also so that a sterner test may be applied throughout to the practicability of the whole proposal. It will be assumed, therefore, that if a $2\frac{1}{2}$ per cent basis is workable, a higher rate of interest would make the first operation of the forced Levy easier. In other words, $2\frac{1}{2}$ per cent is aimed at ultimately, even if it were necessary to begin with 4 per cent, but the scheme in its essence is not bound down to a $2\frac{1}{2}$ per cent or 4 per cent rate. It permits the burden to be varied according to need, but the pace of the reduction of the interest charge for outstanding debt is, of course, higher immediately, the lower the rate of interest chosen for the Levy Bonds.

(*b*) *The Period of the Obligation*

It is an essential part of the scheme that the new issue should be payable in full at a certain date. This provision is necessary so as to secure the appreciation of the security as it matures, with the double object of inducing individuals to hold the security, thus increasing

savings, and of giving the security a higher market value from the commencement than could be justified otherwise by its rate of interest. Moreover, on grounds of justice, if the State takes by compulsion on a promise to pay, it seems bound to undertake to redeem that promise.

The period for which the obligation should be issued is logically (it can be said) the period required for raising an amount equal to the whole existing National Debt—the shorter the better. The following proposals will accordingly be aimed at accomplishing this in a period of twenty-five years—though here again there is room for great difference of opinion.[1] It is enough to emphasize in this place that the date of repayment must be within measurable distance, so that the security may be an appreciating one. Moreover, although the benefit of the conversion of war debt at an earlier date than contemplated in the scheme cannot be discounted in the scheme itself by shortening the period of the new issue, the scheme does, it is contended, bring conversion of the debt into view as a possibility, and the effect of conversion, say from 5 per cent to 4 per cent, would undoubtedly react favourably upon the market value of the new issue.

Proposals are made later for providing for the collection of something over £200,000,000 in the first year. This figure would grow from year to year with the growth of capital. By itself this amount without increase is sufficient in twenty-five years to save 2500 millions in interest, which could be used to pay off debt, and it would leave at the end of twenty-five years 5000 millions (2½ per cent) bonds outstanding falling due in series in the next twenty-five years. It thus provides for a debt of £7,500,000,000. There is a wide margin here, as the total debt was estimated to be £7,685,000,000 gross on 31 March 1920, less debts from Allies and indemnity (see Budget Statement 1919. By the White Paper of 27 October 1919 the revised estimate is £8,075,000,000, but £1,961,000,000 is money lent to others and £842,000,000 is due to America).

[1] See various other scales on p. 62.

(c) *Intervals of Issue*

It is proposed to make the Levy a part of the ordinary revenue collection. It follows that there will be a series of bonds, and it will no doubt be convenient that each member of the series should run from the same date, say the close of the fiscal year, or the 1st January, as might be considered more desirable. Thus in the eleventh year the first number of the series of issues would have fifteen more years to run to maturity if the full period were twenty-five years, and so on. The effect of this would be to break the National Debt up into a regular series of parts, pending a refunding of the whole debt if so desired at a lower rate. The existing debt is payable, with the exception of Consols, in the same way, at various dates, which are now irregular.

(d) *Market Value of new Issue at Commencement*

It will be necessary in fixing the annual amount of the Levy to have formed some opinion as to the probable value of the issue, for upon this depends the amount of the burden on the taxpayer. The value of Consols may be used to help the judgment. This has fluctuated recently round 55, 56, and 57 per cent.[1] But Consols are not repayable at a fixed date, and if allowance be made for this consideration and for the prospect of a general fall in the rate of interest, a value of 60 per cent for the new obligation seems well within the mark. It may be pointed out that this gives a yield of $4\frac{1}{6}$ per cent annually with a bonus of 40, upon which income-tax is not chargeable, at the end of the period of twenty-five years, equivalent on a lock-up investment to a yield of £5 9s. 6d. per cent. Some assumption as to the value of the Levy Bonds is necessary, as will be seen in the next paragraph, for the difference between market and nominal value of the bonds is the immediate "*apparent burden*" which falls upon the taxpayer.

[1] May 1919; now about 51, January 1920.

Similarly the market value of a 4 per cent issue will be put at 85 per cent.

The Annual Amount of the Levy

This is the really vital difficulty. How much can be raised? Before facing the question, it is necessary once more to say that more can be raised if the Levy is at a higher rate of interest than 2½ per cent, and the proposal is here deliberately examined upon the more unfavourable basis, so that it may be well tested against the facts. Corresponding figures upon the 4 per cent basis will be inserted for the purpose of illustration.

Mr. Austen Chamberlain in his Budget speech in 1919 forecasted the total debt charges in the first normal year at 400 millions, including ½ per cent for Sinking Fund.[1] The "½ per cent" amounts to £36,363,636, which we shall here treat as £40,000,000. Now if the new issue is worth 60 per cent, then a Levy of £100,000,000 would impose the contemplated "tax" of £40,000,000, as the immediate and "apparent burden" to the taxpayer. (Upon the 4 per cent basis, valuing the new bonds at £85, the amount levied for an apparent burden of £40,000,000 would be £266,000,000.) But we have already seen that this "apparent burden" is not the full story, and it is necessary now to try and fix what the real burden is.

For reasons given earlier it was proposed to charge the full burden of Debt Redemption upon capital, and these reasons need not be repeated here. But if this is done, two objections have to be met. On the one hand it will be said that personal earnings will escape their just share of the burden of Debt Redemption, which is a burden on the whole community. On the other hand it will be said that "Capital makes a profit out of the

[1] It is of course assumed throughout that the Chancellor of the Exchequer will succeed in balancing the Budget. The proposals here made, whilst certainly excluding the Capital Levy in its crude form, do not exclude a War Profits Tax, or Excess Profits Tax, or other forms of additional yearly taxation.

transaction." These objections suggest from opposite sides the same solution. It is proposed, therefore, on the one side that the whole of the contemplated Sinking Fund burden should be allowed in relief of capital taxation, for if this is done, capital cannot say that personal earnings are not bearing their share—their share being fixed by the common sense of the community in the remainder of the Budget—and on the other side it is proposed that part of the profit which "capital" will undoubtedly make out of the transaction should be brought into consideration for the purpose of the scheme. We have already seen what that profit is in general terms. It will now be necessary to look more closely at the matter, but before doing so, a caution must be given.

In the proposals which immediately follow, it is assumed that the community will consider it just to take into consideration at once for taxation purposes the appreciation of capital values which will go hand in hand with the extinguishment of the debt. If the community did this, it would do it because the action taken by the community in extinguishing the debt is the cause of the appreciation. To tax the appreciation in whole or in part is simply to exact a compensation for a benefit conferred—*quid pro quo*—and accordingly the burden which will be proposed in the next paragraphs in the form of a Redemption Levy will be spoken of as "compensation" money to distinguish it from the money set free by the remission of the Sinking Fund. It is upon the argument from a benefit conferred that the Capital Levy as ordinarily understood is justified. On the other hand it is not easy—and this has to be admitted—for the capital owner to use the appreciation as income or for the purpose of making payments, however much the amount of his disposable wealth may be increased, and, moreover, special legislation might be rendered necessary in the case of life interests under trusts. For these and other reasons indicated later, the community might prefer to deal with the question of appreciation separately by

special capital taxation on the passing of property (or otherwise) or to postpone it altogether. A scheme will accordingly be given called the "anticipatory" scheme, in which the appreciation is not taken into consideration for the purpose of the debt redemption itself. Upon this scheme, as well as upon the 4 per cent basis, a "compensation" tax is left over for ordinary revenue purposes, should it be thought desirable; and after this caution we may now proceed to discuss the question of depreciation, how much appreciation will occur, and how upon the 2½ per cent basis part of it might be taken and made use of for Redemption of Debt.

What is the amount of the existing depreciation, and what appreciation can be expected? The question is of course a double-barrelled one. There is not much material for an answer.

The *Bankers' Magazine* figures show the value of 387 representative securities valued (in millions)—

In 1907, at £3843.
July 1914, at £3371.
December 1914, at £2601.
April 1918, at £2572.
December 1918, at £2801.

In other words, the depreciation had started (as is well known) before the war, and was accentuated by it. It is well known also that, measured in interest, the rate for first-class investments has risen in twenty years from 3 to 3½ per cent to 5 to 5½ per cent, and a corresponding fall has followed all round in the valuation of investments. The proposals here made are intended to reverse this process, to put back the rate of interest, to put up the value of investments. The estimated increase in value should be 20 per cent to 30 per cent in twenty to thirty years. These figures do not, however, tell the whole story. Besides depreciation, war has brought appreciation. No Chancellor of Exchequer unfortunately has such a simple problem to deal with as universal depreciation or universal appreciation could present. It is commonly recognized that houses, land, ships, and all things which require

replacement, and the shares of companies owning them, have appreciated—the appreciation being due either to increased income or to the increased costs of new articles—and there is also the special problem of the war debt itself. In these circumstances no closer estimate is possible, but the average man must be regarded as having suffered much depreciation, and some appreciation, in his investments, and since legislation must proceed on the broad lines of current conditions and the average man's position (some hardship being inevitable in some cases under all taxation proposals), it will now be proposed that a part, say half or less, of the anticipated profit to capital should be brought into account and assessed in the annual Levy. Half the anticipated profit may be arrived at as follows. We have fixed the period of the bonds at twenty-five years, and the whole anticipated profit is that in twenty to thirty years the capital values will appreciate 20 to 30 per cent approximately at the rate of £1 per cent per annum—half of which would be taken by a Levy imposing an "apparent burden" of 1s. as compensation money in those cases where capital was yielding 10 per cent, and less than half would be taken in every case where the yield was less than 10 per cent.[1] We shall assume, therefore, that it is not unfair to impose a Levy carrying an additional apparent burden of something like 1s. in the pound (beyond a Levy equivalent to taxation remitted) on the yield of capital as compensation for appreciation, and leave the remainder of any profit of appreciation to the capital owner—who is, after all (he will say in many cases), "only getting some of his own back."

The Position of War Debt

We come to the special question of war debt. There has been no question here of much appreciation or

[1] This additional 1s. takes 5s. out of the £1 appreciation per cent on 5 per cent investments, and the whole 20s. where the investment is a 20 per cent one. It is not unfair to tax the higher yield more highly.

depreciation of capital values, for the State has adopted a policy in loan issues specially calculated to prevent this result. The argument for special taxation does not, therefore, apply here. There is here no future profit to be realized. And in the case of the war debt, there is another consideration. The State's word is pledged to the debt-holders to a very great extent. It is not desirable that the least justification should be given for any accusation of confiscation as regards money which was specially subscribed in response to a special appeal. For these two reasons, therefore, the Levy imposing the additional burden of 1s. as compensation money should not apply to the war loans. It will, of course, apply to Consols and other Government securities, for they will profit most of all from the appreciation; and the war loans themselves will, except in the case of foreign holders, be subject to the Levy, corresponding to the Sinking Fund remitted, for they were issued subject to such burdens.

It is now possible to resume the discussion and make an estimate.

1. *Upon the 2½ per cent basis*

Of the existing taxation on capital, the 40 millions Sinking Fund is available for conversion into the New Levy, and an additional 1s. in the pound is also, it has been argued, available on the income of all capital except the war debt. The 40 millions taxation remitted may be taken to be equivalent to a reduction of the income-tax on "unearned" income of 10⅔d., for which a levy of 2s. 2⅔d. (being in proportion of 100 to 40) would be substituted, producing £100,000,000, and the 1s. "compensation money" being a Levy of 2s. 6d. (in the proportion again of 100 to 40) over a narrower field produces £92,000,000—a total of £192,000,000 in the first year. This sum is the amount of the Redemption Levy upon the 2½ per cent basis at an "apparent cost" to the capital owner (since he escapes a Sinking Fund) of 1s. in the pound on his income—but there is strong ground

for hoping that in most cases the cost would be more apparent than real, for the general capital appreciation ought far to exceed this figure. Taking Dr. Stamp's estimate of the wealth in private hands in 1918 at £16,000,000,000, an all-over annual appreciation of 14 per cent would make good to private individuals the whole amount of the Levy, and an appreciation of only ½ per cent annually is necessary to meet the whole of its apparent burden, leaving the private owners to pocket the remission of the Sinking Fund charge. The result is so truly astonishing that further comments must be reserved for the concluding section.

2. *Upon the 4 per cent basis*

Upon this basis the complication of raising a Levy imposing a greater "apparent burden" than the taxation remitted is avoided, and the above discussion as to the question of depreciation and appreciation can be omitted. It is clear that the scheme is less effective than the scheme upon 2½ per cent basis, for less interest is saved on debt paid off, but it is also less burdensome.

3. *Upon "Anticipatory" basis*

Upon this basis the success of the proposals is anticipated. Taxation of 80 instead of 40 millions is remitted upon any field of assessment that may be chosen, and 200 millions, imposing on the 2½ per cent basis an apparent burden of the 80 millions, is collected in the form of Levy.[1]

There is no particular fiscal reason why upon an anticipatory basis the Levy should be collected from one class of taxpayer rather than from another. Whoever gets the remission ought to pay the Levy, that and

[1] The cost of such a remission is an increase of 207 millions in debt, incurred in the first eight years, whilst the 5 millions saved annually in interest is mounting up in the series 5, 10, 15 . . . to 40. The yearly charge at 2½ per cent on this 207 millions is just over 5 millions.

that only is clear on fiscal grounds. Thus, the relief and the Levy might be spread over the whole body of taxpayers, or confined to the groups with the higher incomes. On economic grounds, however, there is something to be said for confining it to the groups with the higher incomes, as these groups, as groups, are best able to make real savings. Figures are given in the next chapter which will enable the reader to make his own calculation as to the effect of a remission of 80 millions in taxation and a collection of 200 millions in Levy. The figures on the next page are worked out on the assumption that the remission and collection are over the same area, namely, that of unearned income, as upon the 2½ per cent basis above.

The subject cannot, however, be left without indicating a further possibility—though only as a possibility and for the purpose of illustration. It may be suggested that compulsion is, after all, unnecessary; that all that is necessary is, while keeping taxation at the level necessary under the contemplated Sinking Fund of ½ per cent, to offer a loan of 200 millions annually to be subscribed for as to 80 millions in taxes of any kind paid by the subscriber, and as to 120 millions in cash—the Revenue department paying the 80 millions out of taxes to the Debt Commissioners, and the 120 millions being subscribed in the usual way.[1] The prospectus of such a loan would be for 200 millions, and the subscriber for £60 paid would get £100 of stock with a present yield upon his money at the rate of 4⅙ per cent, and a bonus at the rate of 66⅔ per cent, certain and untaxed, at the end of the twenty-five years. The Nation would in effect be asked to pay off the National Debt by subscribing 120 millions annually to a Government loan at much more favourable terms than have offered during the war. The effect of a series of such

[1] There is no reason, if the subscription was entirely voluntary, why the right to subscribe should be confined to persons who had paid taxes, or limited by the amount of taxes which the subscriber had paid. In the text above the taxpayer is spoken of as given the first offer, for he bears the burden.

loans, if successful, would be exactly the same as the effect of the compulsory Levy in effecting the reduction of debt, but the suggestion is not pressed further here, as it affords no certainty, especially in the earlier years, that the full amount needed would be subscribed. The reader, however, is asked to work out for himself the possibilities indicated, and especially to consider whether a voluntary scheme with compulsion behind it in reserve might not first be attempted.

METHOD OF ASSESSMENT

It is proposed that the Levy should be imposed as a tax, and collected through the machinery of the income-tax from unearned income. The amount of the Levy and income-tax might then be alternately (rounding off rates) :—

TAKING INCOME-TAX AT 6s. *BEFORE* THE LEVY

SCHEME 1.—*Upon* $2\frac{1}{2}$ *per cent basis*

Income-tax,	5s.	yield of Levy	£204,000,000
Levy	5s.		

1s. income-tax is remitted, and the apparent burden of 2s. is imposed by the Levy. This 2s. is made up as to 1s. of Sinking Fund taxation remitted, and as to 1s. of the "compensation" money from all capital except war Loans.

SCHEME 2.—*Upon* 4 *per cent basis*

Income-tax,	5s.	yield of Levy	£225,000,000
Levy	5s.		

1s. income-tax is remitted, and the apparent burden of 9d. is imposed by the Levy.

SCHEME 3.—*Upon anticipatory basis* ($2\frac{1}{2}$ *per cent*)

Income-tax,	4s. 3d.	yield of Levy	£217,000,000
Levy	4s. 9d.		

1s. 9d. income-tax is remitted and the apparent burden 1s. $10\frac{3}{4}$d. is imposed by the Levy. If these rates were rounded off to 4s. income-tax and 5s. Levy, the yield of the Levy would be increased at the cost of further anticipation of taxes.

In considering the above proposals, it makes no difference if the rate of the income-tax is not altered at all, but the rate of the Levy made correspondingly lighter, provided that the tax not remitted is paid over to the Debt Commissioners.

No new machinery is needed for the Levy. The taxpayer would produce his certificates of payment or deduction, and receive in exchange a certificate entitling him to his share in the new issue. The ordinary income-tax claim or return would no doubt be dealt with at the same time, and it is worth noting that the Revenue would thus have good proof in its hand as to the true total income for assessment.

No special provisions beyond the above are necessary, except to provide that where more Levy is deducted in any year by a company, etc., than charged under the assessment for the year, the difference in the Levy should be paid over. (This provision seems required, although for income-tax the difference is deemed to correct itself in the average.)

It should be added here that it goes almost without saying that it must be presumed that the main outlines of the existing scheme of income-tax collection will be preserved by the Royal Commission.

Miscellaneous

Various subsidiary questions as regards the assessment of the Levy ought to be mentioned very shortly. This book does not afford scope for their complete discussion.

The Levy proposed is a flat rate, for it is assumed that all capital is equally affected and equally benefited. Differentiation and progression are left to be affected by the income-tax and the death duties. It is not ignored that there will be a demand for a progressive Levy ; if this demand were conceded the Levy would no doubt have to follow the income-tax rates.

Generally speaking, it is contemplated in the proposal

for raising the second half of the Levy called compensation money on the $2\frac{1}{2}$ per cent basis, that no exemptions will be allowed, but a few exceptions may be necessary. It is sufficient here to mention charities, the small class of "unearned" annuities, clergymen's incomes, small holdings and businesses, perhaps also small properties or properties to which the Rent Restriction Act has been applied.

It may prove necessary, also, to grant relief to some individuals. If so, since it is wrong in principle, it should only be granted on compassionate grounds—for instance, where the recipient of an income below the figure fixed proved to be an invalid, or disabled from employment, or a widow with several small children. Broadly speaking, small unearned incomes are probably from stocks which have greatly depreciated and which will benefit by the appreciation contemplated. If relief is to be allowed, regard should be had to any appreciation of the capital asset.

There is the question, also, whether the present division between earned and unearned income is sufficiently scientific. The present division is by rule of thumb. At the time of the introduction of differentiation, the difference was not considered important enough to justify the trouble of ascertaining exactly the amount of capital employed in trades and professions. As regards trades, the effect of the Excess Profits Duty has been to supply the Revenue Authorities with information which would enable them to make a more accurate division; but this is clearly not the place for the discussion of a somewhat complicated matter.

CHAPTER VI

ESTIMATES

THE writer hopes that his companion reader will find it most convenient to have in one chapter all the estimates upon which the previous proposals are based. In some respects, as will be pointed out later, the estimates do not much matter. The principle here advocated is an arithmetical one, applicable to any set of figures, and this point cannot be too strongly emphasized. The principle is that taxation should be remitted equivalent to the Sinking Fund, which will otherwise be necessary, and reimposed in the form of the "apparent burden" incurred under a Redemption Levy, and that (except on the 4 per cent basis) further amounts should be collected in the form of Redemption Levy, imposing a further "apparent burden," either as a compensation against the benefit conferred in the general appreciation of capital values due to the extinguishment of the debt, or in substitution for taxation remitted at once in anticipation of the relief afforded by the redemption.

It is necessary to give first the estimate of the relief afforded to unearned income, that is, income from capital, by the remission in favour of unearned income of the whole of the 40 millions Sinking Fund.

ESTIMATES

Estimate of Relief of £40,000,000 Income-tax on Property

Income-tax. Net *taxable* income (unearned)	1914–5 figures (1)	Alterations estimated.
Land and houses (Schedule A)	£162,762,000	+£15,000,000 (3)
Public Securities . .	47,369,000	+250,000,000 (4)
Schedule D (Trades, etc.) .	375,000,000 (2)	+ 50,000,000 (5)
Say . . .	£585,000,000	£315,000,000
	Say . £900,000,000 (6)	

Notes

(1) The 1914–5 figures are the latest available (Table 43 of 59th Report of Commissioners of Inland Revenue). They are, of course, based on pre-war averages.

(2) This figure is largely conjectural. The net amount taxed is shown as £520,893,000, after all deductions and allowances, including repayments totalling £203,594,000 (Table 54). The gross unearned income is £468,104,000; the gross earned (*i.e.* firm and personal) income, £256,384,000 (Table 53). The question is how much of the personal income is to be considered as unearned, and how the deductions should be apportioned between the two classes. Firms with incomes over £3000 took £56,912,000; persons with incomes over £2000 took £23,820,000 (Table 128 of 58th Report). Messrs. Mallet & Strutt, *Statistical Journal* (July 1915), put the unearned element included for charges on personal and firm incomes at £5,000,000. Dr. Stamp (*British Incomes*, p. 469) thinks this too little.

(3) There has probably been some increase in the net annual value of land (*Economist*, 7 May 1919), and some similar increase for houses even with little building. The last valuation was in 1910–11.

(4) The addition is for home subscribed National Debt—say 5500 millions (See Dr. Stamp, *Economic Journal*, September 1918), less exemptions and abatements to small holders. But a good deal of this will find its way to Schedule D.

(5) A reduction for the income on something over 1000 millions foreign investments sold, and for the wife's allowance, has to be made; on the other hand, the exemptions and abatements allowances are less under this as well as all the other heads. The Excess Profits Duty payments hardly permit close estimate to be made. (The wife's allowance, etc., has been altered by the 1919 Budget.)

(6) The whole estimate is contingent on the course of trade, represented by Schedule D.

Three estimates are alluded to in the previous chapter. It is assumed in two of them that 40 millions taxation is to be remitted over the above area (£900,000,000). This is the equivalent of a tax of 10⅔d. in the pound, which is rounded off to 1s. The third scheme assumes that success will be "anticipated"—for Chancellors of the Exchequer are, after all, human. Thus, since 5 millions a year can be saved in the interest charge for debt, in eight years 40 millions is available. This might be "anticipated" at a cost of 207 millions increase of debt and two annual sums of 40 millions instead of one remitted. Practicable rates of 4s. 3d. and 4s. 9d. are given in the text, showing the result of such a proposal as applied to unearned income—though the remission might possibly be extended to a complete 2s.

The Anticipatory Scheme

As stated in the text, there is no fiscal reason for confining an anticipatory scheme to unearned income. The formula of an anticipatory scheme is: remit 80 millions taxation; collect 200 millions levy—where and how you please. The following Table is shortened down from the second volume of evidence before the Royal Commission on Income-Tax. The reader must make his own choice from it. The figures are for income-tax for 1918–9 with super-tax added for 1919–20.

Class Exceeding.	Not Exceeding.	Number of Incomes.	Taxable Income.	Total Tax.
£130	£1000	5,121,400	£1,076,700,000	£50,922,000
1000	1500	91,800	110,000,000	22,399,000
1500	2000	44,800	77,000,000	18,395,000
2000	2500	28,900	64,000,000	17,708,000
2500	5000	36,555	123,200,000	39,381,000
5000	—	22,565	299,100,000	124,011,000

The 4 per cent Scheme

Upon the 4 per cent basis, a remission of 1s. income-tax would logically carry a Levy of 6s. 8d. (at a value of 85 per cent) and yield £300,000,000. A practicable

rate of 5s. ("apparent burden," 9d.) is suggested in the text, and out of this the taxpayer makes a profit of 3d. if 1s. is remitted from income-tax—quite apart from all questions of appreciation.

The Compensation Money upon the 2½ per cent Basis

Upon the 2½ per cent basis, the equivalent of the Sinking Fund remitted (rounded off to 1s.) is collected in the form of a Levy at 2s. 6d. (being in the proportion of 100 to 40) over the above £900,000,000, and following the text a "Compensation Levy" of 2s. 6d. imposing (in the same proportion) an "apparent burden" of 1s. in the pound is collected as follows, as "compensation" for benefits conferred.

Previous figure		£900,000,000
Deduct War Loan interest		250,000,000
		£650,000,000
Add for exemptions and reliefs not allowed (1)		
Schedule A	£52,695,000	
,, C	3,773,000	
,, D	42,585,000 (2)	
	£99,053,000 (3)	
Say	£90,000,000	90,000,000
		£740,000,000

Notes

(1) See Tables 45, 50, and 54 in 59th Report.

(2) This figure is half the reliefs allowed under the Schedule. It is impossible to apportion it more exactly in the absence of information (see note (2) p. 47).

(3) The total ought to be increased by the wife's allowance and decreased by the restrictions to the exemptions and abatements.

No allowance is made in this estimate for relief to houses included in the Rent Restriction Act from the burden of the second half of the Levy, nor for a possible relief on compassionate grounds. On the other hand, no part of the Levy is charged on farms, although

farmers' capital is considerable (Stamp's estimate is 340 millions), and it is assumed that not more than a small portion of the income under Schedule D of persons and firms will be treated as derived from capital, although much is now taxed at the unearned rate. The Rent Restriction Act is, of course, a temporary measure.

The 40 millions taxation remitted being an income-tax of 10⅔d. on the £900,000,000, the total yield of a Levy on the 2½ per cent basis is thus 2s. 2⅔d. on £900,000,000, and 2s. 6d. on £740,000,000, giving the first figures 192 millions [1] in the text, which is rounded off to 204 millions in the estimate by remitting tax of 1s. and imposing a Levy of 2s. 6d.—in all, 5s.

All the three estimates given thus produce about 200 millions or over in the first year, and if the Levy ran for twenty-five years, the increase in the stream at the end of the period might be as much as 50 per cent, so that unless remissions were made very much more would be collected than will be shown later.

The figures given in evidence before the Royal Commission for later years than those referred to here bear out generally the estimates in this chapter, and seem to indicate an even greater growth of income than is here estimated for. An answer to Mr. John Davison in the House of Commons (December 1919) gives the estimated figures of gross taxable income for 1918–9 as follows :—

Schedule A . . .	£290,000,000	
„ B . . .	100,200,000	
„ C . . .	80,000,000	
„ D . .	1,009,000,000,	excluding weekly wage-earners
„ E . . .	323,000,000	
Total .	£1,802,000,000	

The corresponding total of gross taxable income for 1914–5 is £1,238,313,307. The large increase estimated for in this chapter under Schedule C has, it will be seen, partly been transferred to Schedule D, registered

[1] Page 40.

war stock being assessed under that Schedule, and partly has not yet been realized for income-tax purposes, for the Schedule D assessments for 1918–9 on such income have to be made on the basis of the 1917–8 figures. It must also be remembered that the assessments on trades are generally on the basis of the three previous years.

As emphasized, the figures in this chapter need not be realized for the purpose of the scheme advocated. If the actual income taxable was less, the tax remissions made possible would be greater and the Levy would be at higher rates; and if more, the converse would result.

Throughout these estimates the full amount of Levy is shown as collectible and tax is taken as remitted against it. It makes no difference, however, if the tax is not remitted and a correspondingly smaller amount of Levy collected.

CHAPTER VII

THE GROWTH OF REAL CAPITAL AND THE EFFECT OF THE SCHEME ON SAVING

IN the introductory section of this book it was stated that the true problem for the Nation was the problem of getting new real capital, that if a great "spate" of new capital were created the National Debt could be drowned in it first and redeemed afterwards! Do the proposals now made give a promise of any such success? The question has to be examined very carefully, for any scheme which interfered with saving must spell disaster. This is the real danger of all proposals for Capital Levies, and it is claimed that the danger has here been avoided. We will proceed to examine the questions involved both from the economic and practical points of view—speaking throughout of a levy upon the $2\frac{1}{2}$ per cent basis.

In a community in which absolutely no new capital was required, the effect of the Redemption Levy would be to force down the rate of interest on State Debt. As debt was paid off, the proceeds would seek reinvestment, and there would not be room for them by way of reinvestment in the Levy itself till interest on Government loans generally had been forced down to $2\frac{1}{2}$ per cent. Capital values all round would be appreciated at a great rate. It would seem at first to follow that the less new capital is required, the more nearly would this result be reached, but we shall see that owing to the effect of credit this is not necessarily the case.

Actually new "real" capital is at present required in

immense quantities. How much will be created by the Levy itself? What will be the course of capital values (prices)? These questions have now to be examined from two sides.

I. Individual Saving

The minimum price of the New Levy must be put (we have seen) at something like 60 per cent. It has to be remembered that the collection of the Levy will always be many months ahead of possible sales against it. Thus (in the first year) the scheme will have been in operation from April to April before the first bonds of holders of the Levy will be available for sale on the market, and the great mass of the bonds will not be forthcoming till months later. And so on from year to year. Sales of Levy Bonds are thus postponed, and the money on the market for meeting them is constantly being increased. Assuming, however, that all the bonds are sold by the forced holders to previous holders of the National Debt now paid off, this would (at 60 per cent) leave 80 millions new capital out of the 200 millions available for use elsewhere. This figure seems a minimum, and allows for no new money from other sources than the Levy itself.

But it is certain that a great number of the forced holders will not sell quickly or at all—acting *per incuriam* from the deliberate desire to save, from the habit of postponing decisions, and other causes. If only 10 per cent is so withheld, the 80 millions becomes at once 92 millions, and so on. There are also all the savings of the rest of the community. How much *direct* saving can be estimated as likely to arise from these sources?

In answering these questions we have to form an appreciation of the effectiveness of the new security merely as a stimulant to thrift. If its market value is to be written down to 60 per cent, it affords a most attractive investment. This will be seen, if we compare the popular War Savings Certificate offered at "15s. 6d.

for £1" in five years, for the new bonds could be offered at "£1 for 33s. 4d." in twenty-five years, the £1 increasing by rather more than 6d. a year untaxed, an average over the period and in addition earning 10d. a year in cash interest (liable to taxation). If the Government did not itself underwrite, it could help to popularize and advertise the sale of bonds upon such terms as these. Further, the big financial houses, insurance companies, etc., would be ready to buy the bonds if they were obtainable on any such terms. Against this it will be said that they will be hard enough put to it to carry their own share of the Levy; but if it is so said, it must be answered that the objection overlooks the remission of taxation—upon the anticipatory basis equal to the whole immediate apparent burden—and that the position is really the same as if with the existing load of taxation they were offered an investment of the kind described. The only conclusion that can be drawn is that they would be willing to take up the security. And so much is this conclusion the probable one, that it may even be suggested (a suggestion already discussed in Chap. IV) that keeping taxation at the Sinking Fund level, a compulsory Levy is, after all, unnecessary upon the anticipatory basis, and that enough money would be subscribed by the mere offer of the bonds at 60 per cent to persons who had paid the 40 per cent in some form or other of taxation! This suggestion may no doubt be regarded as a fanciful one, but it can hardly be rejected off-hand, and it has sufficient weight to make it probable that a great mass (perhaps even the greater mass!) of the richer persons and companies would be willing to continue to hold the bonds, even if they had to write them down to 60 per cent, and all this is without taking count of the other great mass of people who would put off selling out of mere carelessness, ignorance, and indecision. If for all these causes the total actual holding of the Levy by persons levied amounted only to one-half of the Levy, this sets free 100 millions of paid-off debt for new capital purposes, and as out of the second 100 millions 40 millions, being

40 per cent, is also available for new capital purposes, a total of 140 millions new capi al has been created.

The above suggestion of an estimate may of course be challenged as excessive. It may be said that it proves too much, and that the market price of the new bonds will be over 60 per cent, and that more people will sell than above contemplated. And the answer to this is a simple one. If the market price is over 60 per cent, then the apparent burden of the Levy is less than assumed throughout the argument, and the whole scheme is more feasible financially and fiscally, or feasible on "stiffer" terms. In any discussion of this question two balancing factors have to be borne in mind. If the bonds go up in value, the burden of the Levy diminishes; if the value falls, there is less room for reinvestment in them and more new capital is av ilable. Thus suppose 1000 millions paid off, and suppose everybody who is levied sells his bond and the new bonds stand at 50 per cent, 500 millions new money is available for trade. The stronger the demand from trade, the lower the value of the bonds, the more money available for trade, is one series of cause and effect, bringing about *d*-p eciation and inevitably correcting itself by a process of balance as the demand of trade is satisfied to another series, namely, a smaller demand, a higher value to the bond, less money available for trade, but a general *ap*preciation.

It has to be noted in this place that the method of the collection of the Redemption Levy makes a difference probably to the amount of the apparent burden imposed under it, and to effect which it will have consequently an individual saving. If the Redemption Levy were collected voluntarily or by direct assessment upon the subscribers, they would first have to put down their money and get their certificates of payment, and the money would *then* be used for the redemption of debt. Sales of the new certificates, forced before the money had been used to redeem debt, would consequently come upon a depleted market, and the certificates would not realize too favourable a price. If,

however, the Redemption Levy were collected (mainly by deduction) through the machinery of the income-tax, the money would, as already stated, have been used some weeks or months before the first forced sales of the Levy Bonds, which would consequently come into a good market. This would, at the beginning especially, make some difference in the price of the bonds—and the price of the bonds is a very important factor affecting the whole of the proposals. This consideration must not, therefore, be overlooked in weighing the comparative methods of alternative methods of collecting the Levy.

2. "Real" Saving

But the question is best examined from the "real" side. The heads only of possible discussion on this side can be indicated:

(*a*) How much new capital is required? Pre-war savings are put at 350–400 millions annually. (See *Census of Production*, Bowley's *Division of Product of Industry*, Stamp's *British Income*. The figure includes 100–150 millions for foreign investments.) More, clearly, is necessary than before the war. Is more possible?

(*b*) Really under the Redemption Levy itself a large proportion of the National income will be more or less directly applied to making new capital, for—

(i) Much of the debt is held by businesses which have postponed extensions, etc., and will apply money thereto as soon as it is available.

(ii) Much is held or owed abroad. The extinguishment of this charge is a "real" benefit to the National economy.

(iii) New companies and new issues will compete in the market on equal terms with old issues for the "new money" made available by the Levy's redemption of debt. The new money will thus directly flow into development.

(*c*) The real economic facts as to saving are very

complex and hard to follow. The following summary statement is hazarded. It seems true to a large extent that the industrial and financial machines working together now (within limits) produce their own new capital (or much of it) without saving first in the conscious deliberate sense by individuals—who have, of course, to pay all the same. The decisions to apply income to capital purposes (*i.e.* to create new capital) are taken first [1] and the financial machine is left to shift the expense on to the whole market, *i.e.* over all other consumable goods and all other assets dealt in. In the war the Government did this on a colossal scale. The community did not pay for the war in saving except to a limited extent (Bowley's *Division of Product of Industry*, p. 22), but (among other ways) in the inflation of prices of goods. If anything useful were left from the war, it would be true to say that real capital had been partly created in this way. Similarly with good trade and a boom, new real "capital" (like the war debt) comes into being on credit and is paid for in increased prices, so far as it is not paid for at the time in savings.

The question, therefore, from the real side, how much new capital will be created by the Levy, is misleading, if it means how much have we got to save immediately out of a certain income, for the amount of the income measured in money increases with the rise of prices according to the amount which has to be applied to capital purposes out of it. In the "real" sense there could be a far greater capital accumulation after than before the war, if people went only partly as short of things during the first years of peace as they went during the war, but had larger money incomes. This accumulation will, in fact, be effected and enforced if the trade of the country can be enabled to get hold of money at reasonable rates of interest whether on credit or out of real savings. It is contended that the Redemption

[1] *i.e.*, Directors decide on extensions and pay for them as they can best manage out of profits or by borrowing. If out of profits the saving is collective, not individual, and is often indefinitely postponed.

Levy will help to make this possible by keeping down the rate of interest, and that with the fall of interest capital values will be enhanced all round.

The Levy, if successful, might therefore quite easily at once help to create savings of the full £200,000,000 and produce the full desired increase of real capital, but no estimate in figures is possible. As stated in the opening section, the Nation ought really to aim at saving 15,000 millions in thirty years instead of the "paltry sum" of £7,500,000,000.

CHAPTER VIII

GENERAL EFFECT OF THE LEVY

THE proposals here outlined are, it is believed, novel. The author may, therefore, be permitted at this point to say that he is not himself aware of any even remotely similar proposal made elsewhere,[1] and that he has therefore, being compelled to anticipate and invent criticism, been unable to profit by the failures of others. He has also found it very difficult to decide how far further elaboration of several points raised would be of assistance to the reader. In the general remarks now to be made he will try to emphasize what seem to him the really salient points. Other minds will, no doubt, bring other difficulties which he cannot foresee.

THE SCHEME IS PLIABLE

The first point to be brought out is that the scheme is a pliable one. It is intended to fit into and be part of the existing machinery of revenue collection, trade, and finance, and if it is to do this it must be in its nature adaptable. Throughout the paper accordingly three forms of the scheme have been kept in view. The conditions of finance, the needs of the Chancellor of the Exchequer, the general opinion of the public when that opinion has ripened can alone decide which scheme is

[1] With the possible exception of that in the *Berliner Tageblatt*, which he discovered when most of this paper was written. See also Hartley Withers' *War Time Financial Problems*, p. 216.

preferable, or whether some other basis should be chosen. This question is unessential, but it is essential to the scheme to take advantage of the credit which it will itself establish and create—to discount (it will be said by opponents) its own success. There is, however, nothing really problematical about this discount. The full amount will be received as the scheme matures, and it is right in principle that the profits of the scheme, since they will be due to State action, should be so far as practicable reaped by the State and used by the State for the redemption of debt and the relief of the burden of taxation upon its citizens. So much at any rate may be asserted with full confidence of general agreement.

THE AMOUNT REDEEMED

The scheme, however, will be attacked in detail on various grounds. Readers will make the obvious discovery that the National Debt is not, in fact, redeemed by it, for the nominal figure of debt will seem to remain the same, or they will dispute the various estimates upon which the scheme is based. The first of these criticisms is hardly serious, for consider what could (if it were desired) be accomplished :—

Taking the National Debt at . .	7500	millions
The interest charge is some . .	375	,,
An annual Levy on the $2\frac{1}{2}$ per cent basis of	200	,,
Would save every year in interest .	5	,,
Totalling in twenty-five years at 5 per cent	2500	,,

The position would then be—

National Debt	5000	,,
Interest	125	,,

and it would be possible at once to remit in taxation 50 millions, abolish the Levy, repay solid blocks of

debt amounting to 200 millions a year for the next twenty-five years, coupled each year with a remission of 5 millions in taxation, debt and interest being then extinguished!

Upon the anticipatory basis the period of twenty-five years could still be retained as the period of the Levy Bonds, for some regard, after all, must be had to the yearly increase in the yield of the Levy (compare Table in Chap. I), and it is not necessary to write off as bad debts the whole of the 1961 millions lent to our friends and Allies, and the whole of any "indemnity" or "reparation" from Germany. Taking these considerations into account, the result of an anticipatory scheme at the end of twenty-five years might be to show a smaller amount of debt actually paid off (say £1000) and a larger debt outstanding at 2½ per cent (say £5800), with a larger interest charge (say £145).

These figures are sufficient to meet the criticism that the debt is not redeemed. It is not, however, contended that these results would be achieved, for (as stated again and again) the whole scheme would be made part of the annual Budget. It would thus be possible for Chancellors of the Exchequer to "raid" the money set free by the Redemption Levy, as they used to raid the old Sinking Funds, and it is even contemplated that they could take 40 millions a year out of it from the very commencement. And these figures are only given for the "purpose of illustration," for public opinion might very well either welcome a more drastic scheme or whittle down the proposals made in this book.

Perhaps it is worth while at this point, by way of emphasizing the pliable nature of these proposals, to indicate very summarily several alternative schemes. Their consideration will enable the reader to understand the different possibilities which are open. The Table on next page gives the mathematical features of ten schemes.

TABLE TO SHOW EFFECT OF VARIOUS REDEMPTION LEVIES
(000,000's omitted)

THE NATIONAL DEBT IS TAKEN AT 7500 AT COMMENCEMENT

THE INTEREST CHARGE IS TAKEN AT 375 AT COMMENCEMENT

(1) Amount of Levy.	(2) Basis.	(3) Annual Saving in Interest Charge.	(4) Period of Levy Bonds.	(5) Value of the Bonds. With Interest on 5 per cent. Basis.	(5) Value of the Bonds. Assumed.	(6) Apparent Burden.	(7) Debt Extinguished.	(8) Debt at End.	(8) Debt at End. At per cent.	(9) Interest Charge at End.
					Per cent.	Annual.	Total.			
200	2	6	24	£58 12 0	55	90	2700	4800	2	96
250	2	7½	20	£62 12 0	60	100	2208	5000	2	115
								292	5	
500	2	15	12	£73 8 0	70	150	1414	6000	2	124
								86	5	
1000	2	30	6½	£83 14 0	80	200	807	6500	2	140
								193	5	
200	2½	5	25	£64 15 0	60	80	2500	5000	2½	125
250	2½	6¼	21	£67 19 0	64	90	2060	5250	2½	142
								190	5	
500	2½	12½	12	£77 17 0	75	125	1178	6000	2½	166
								322	5	
1000	2½	25	7	£85 10 0	83	170	770	6730	2½	168
250	3	5	22	£73 13 0	70	75	1840	5500	3	173
								160	5	
500	3	10	12½	£81 15 0	80	100	1030	6250	3	198
								220	5	
1000	3	20	7	£88 8 0	85	150	620	6880	3	207

A 4 per cent Levy would be directed to achieve conversion of the whole debt to a lower percentage. No Table can be given

to show when this would be possible. It is clear that as the rate of interest on the Levy falls, the Levy becomes more and more a mere Sinking Fund, and as the amount of the Levy rises, the Levy becomes more and more a Capital Levy, and would require to be financed by credit and other arrangements made by the persons paying it. It is important to note that the "debt at end" (Column (8)) shows a debt falling due in the next series of years corresponding with the number in the "Period" (Column (4)). The "assumed value of bonds" in Column (5) is of course arbitrary. See previous discussion as to the value of Levy Bonds upon the 2½ per cent basis.

The above Table shows various mathematical possibilities, in which, if the reader feels inclined to interest himself, he must remember the economic and financial facts which lie behind the enforcement of any particular proposal. Thus, although the apparent burden of a Levy decreases as the amount of the Levy (shortening the period for which the Levy Bonds are issued) increases, it does not follow that it is economically desirable or fiscally possible to have a series of very big levies. The individual might in that case be forced to borrow, not induced or encouraged to save. It might even be impossible for him to find the money at all year by year to meet the Levy, and indeed the proposal soon comes up against all the difficulties of the Capital Levy in their most practical form. But if these cautions are borne in mind, it is hoped that the Table will not prove misleading.

The Nature of the Estimates

It will now be sufficiently clear why the second line of possible criticism above referred to may be regarded as unimportant. It is answered by saying that the estimates are purposely given in round figures—the roundest possible, because it is not essential that more than an approximation to the estimates should be realized. Thus the 5s. Levy may not in the first year reach £200,000,000, or even allowing for the increase from year to year be exactly equivalent to the debt in

twenty-five years or any other predictable period. It does not matter if it does not—though the estimates contain wide margins. *In fact,* an annual repayment of something like this figure would enable a very favourable conversion of the debt to be effected on the money market long before the expiration of the period contemplated as the launching of the scheme. *In fact,* new capital would be created and trade and industry encouraged.

Again, it may be said (attacking details) that the machinery is cumbrous—that it is intolerable to require individual taxpayers to prove annually the amount of their contributions. It would seem to be a sufficient answer to say that a great mass of taxpayers have already to do so. Such criticisms, however, cannot now be pursued into further detail. A more general survey is necessary of the effect of the scheme on the various parts of the National economy.

1. *The Effect on Financial Houses*

Every financial house has had to bear a great depreciation of securities. The arguments for taking appreciation into account in fixing the amount of the Levy apply with great force to all banking, insurance, and similar businesses. The figures from the *Bankers' Magazine* sufficiently prove this. The Levy would indeed decrease the immediate gross income of such businesses but the large "write offs" out of profits so long necessary could at last cease. It is difficult to think that the net profits would not be increased—unless the Levy were put in force in a much more drastic manner than here proposed. In the opening pages of this paper certain conditions as regards finance were laid down which a sound scheme must observe. These conditions have, it is claimed here, been fulfilled. The great power of credit has been harnessed for the use of the Nation. The work is left to be done by the financial organs which have served the Nation so well in the war. The effect

on public opinion has been considered throughout, and will be again faced frankly in the concluding paragraphs.

2. *The Effect on Trade*

Will the Levy cripple trade by preventing accumulation? There might at first sight be thought to be some ground for such a contention. Many businesses are built up out of their own profits by the prudence of the owners. It may be said that taxation of such businesses at a "virtual rate" of 7s.[1] in the pound would cripple industry. In dealing with this question it is necessary to take separately the two cases of companies and firms.

As regards firms, as indicated in Chapter VI, it is not necessary to charge more than a portion of the profits with the Levy. Firms with no outside resources would, of course, feel the burden most, for they would get nothing back in the appreciation of their securities. The claim, however, to considerate treatment is not a very strong one. The effect of the repayment of large sums of the National Debt will be to reduce the current rate of interest all round, enable firms to borrow at reduced rates, put off the realization of the scrip for the Redemption Bonds to the most favourable opportunity, and thus escape a large part or the whole of the "apparent burden"[2] of the Levy.

The same considerations apply to companies, and the following further remark is worth making. It will be open to companies which get no benefit in appreciation to distribute their profits, and then (if they desire to make extensions out of them) to make further calls upon their shareholders. Taking the shareholders in mass, they will be getting the benefit of the appreciation, and so be able to subscribe new money. We are again left

[1] Only upon the 2½ per cent basis without anticipation. On the anticipatory basis there is no extra burden at all.

[2] The estimates do not include any charge on firm's Schedule D Case I profits, but include the Schedule A on property.

only with the few "hard cases" (inevitable in all proposals for taxation) of individuals who are compelled to realize the bonds at a loss of 2s. in the pound on their income,[1] and who get no benefit of appreciation in any direction elsewhere upon their investments. The answer to complaints from this class is, again, that out of the 2s., 1s. would represent taxation remitted, and that the second shilling should in the future be much more than recouped by the successful working of their company, even if the value of their holding is not immediately increased. Upon the anticipatory basis they are no worse off than under the Sinking Fund.

The Imperial Connexion

The first duty of the homeland to the dominions and dependencies is to be strong. She can then out of her strength help them. If the proposals here put forward were adopted and proved successful, a quick and easy way to this end would be opened. It would prove possible for the Government to lend from year to year a proportion of the Levy to the Governments of dominions and dependencies who had incurred war debts in the Allied cause. These loans, if made at 3 per cent, would make it possible for the borrowers to effect great reductions in interest charges, and the Home Government could apply the ½ per cent in the usual way to Sinking Fund purposes. A few hundred millions so applied would do much (it may be claimed) to federate the Empire. The home country would become again the banker, actively helping the development of the dominions. In the past, John Bull has been called in Australia John Cohen—a Jew charging moneylending rates! This reproach would be removed.

The effect of such loans upon trade would be to stimulate exports. They could only, in fact, be made in goods—unless, indeed, the lenders in the Colonies who were paid off invested the moneys received in home securities.

[1] Only upon the 2½ per cent basis without anticipation.

Education

If it is the duty of the homeland to be strong, it is clear that strength is not possible with our present unhappy division of opinion. The remedy lies in education. There is not space in the present book to review our present system or do more than enter a protest against the class consciousness which it does so much to foster. All classes should be taught in the schools to realize the basic economic truths as to wealth production.[1] All classes should learn that it is not true to say that capital employs labour or that labour employs capital, for both are rightfully nothing more than the servants of the community. Labour has no right to the whole product of industry unless labour will itself make provisions for the future. Capital has no right to claim that it exists except to make such provisions, and if the individual capitalist is guaranteed against loss of his principal, he should be content with a reduced rate of interest to compensate him for the deferred enjoyment of his money. The community acting through the State is ultimately responsible to see that neither capital nor labour abuses its power. The proposals here made can be used to curb undue demands of capital on the one hand, and on the other to moderate the demands of labour; for labour will have a voice, acting in a constitutional manner through Parliament, in creating capital, and he who creates capital whilst he controls its demands, so far as they are unwarranted, is himself controlled by the true price of creating it.

Public Opinion Generally

It is difficult to anticipate whether the proposal defended in this paper will be more strongly attacked by "Individualistic" or "Socialistic" partisans. This

[1] See, *e.g.*, *New Fallacies of Midas*, by a Winchester schoolmaster, Mr. C. E. Robinson.

very fact is claimed as a merit of the scheme. The Nation is in debt through the State. No party seriously suggests repudiation, and the debt has got, therefore, to be redeemed. As a Nation, however, we are divided in opinion. One side dreads State action. They will say that so large a sum as is here contemplated should not be put into the hands of the State; that the State will be tempted to try experiments with it; that a door is opened to unlimited State borrowings at ridiculous rates of interest, amounting in effect to confiscation and robbery. The answer to such fears has already been indicated, and there is, after all, no security for wealth except in the common sense and sense of justice of the community. From year to year in the Budget the fight is renewed, and must be renewed between the partisans of individual enterprise and those who desire another state of society. The lowering of the rate of interest generally may do something to mitigate the bitterness of the conflict.

But to the Socialist party another answer must be addressed. They must be asked to face honestly the question of the provisions of new capital for industry and the redemption of the debt. Industry is dependent for its development on capital—whichever way the question proposed in the Preface is answered. Capital is wealth employed for social purposes when it goes to increase the productive efficiency of the Nation.[1]

If the Individualist asserts that the proposals will bring about State control of capital, is it the whole truth for the Socialist to retort that they are merely an endowment of capital? The great forces which move in history alone can conclusively answer—and will so answer—such statements. We are governed by our present needs, as we see them. No doubt we ought to have far more forethought and a far wider horizon than we possess. But standing where we do, this is clear and certain, that at the present time in the economic

[1] Rodbertus, the Father of Socialism, recognized that capital performs a social function. (See *The Social Philosophy of Rodbertus*. Gonner, 1899.)

sphere the need for more capital is very great—capital containing in itself the provision for future growth. The limits of taxation are nearly reached, or at any rate the Nation is not ready to create capital on a sufficient scale by taxation—that is, by real compulsory collective saving. Why should it not, then, in accordance with its own many previous precedents, act on a compromise? Why not adopt a proposal which is in part based on the individual "will to save," in part based on State action directed to enforce and encourage that will?

CHAPTER IX

THE REASONS FOR AND AGAINST REDEMPTION

BUT when all has been said that can be said to show that the debt can be redeemed, and redeemed quickly, at the cost of no great effort, certain obstinate beliefs and opinions will still remain which will reinforce with various excuses, which can hardly deserve to be called real objections, every argument put forward against the proposals here advocated. This final chapter must be devoted to the analysis of these excuses, with a view to discovering the beliefs or feelings behind them, for it is the deep-seated and "instinctive" motives in man's unconscious mind which have the last say generally in determining his conduct, and they do their work blindly unless they are brought up and discussed in the light of day. The most foolish and feeble course is to ignore their existence.

In the case of the National Debt there was before the war a widespread popular belief that it was good for the Nation in some unexplained way to have a big debt; that the debt added to the stability of the State, and that it would not be wise to make a great effort to get rid of it. It is difficult to say whence this belief originated. Before the widening of the limits for investment by trustees and the collapse of Consols, it was supported by pointing to the "convenience" of Consols for investment purposes—a convenience which before the days of Goschen made a wide appeal. It may be that the discussion by the classical economists,

and even that of Ricardo himself,[1] of the problems of redemption may have done something to cause this belief, but we shall see as this chapter proceeds that the belief may very well have been spontaneously developed by the debt itself, for we shall find causes at work to reproduce the same opinion.

The Reasons for Redemption

At first sight, indeed, such a development of opinion seems unlikely. The Nation is staggered at the load of debt. It is not yet used to it, and wants to get rid of it. It realizes very acutely the really substantial reasons, financial, fiscal, and economic, for trying to redeem it. Financially, the Nation sees clearly that its credit is impaired by the excess of debt. Fiscally, it feels the burden of taxation, and begins to realize the futility of raising money from some of its own members to pay it away again in interest to other members. Economically, the trader knows that he is hampered by the enormous mass of unproductive capital upon which he is called to pay interest. But it is questionable how long this frame of mind will last, as soon as the Budget has been balanced and Use, that great factor, has reconciled men's minds to the new level of prices and the necessary load of taxes. As soon as this has been accomplished various excuses against redemption will quickly be found, and some of these will now be dealt with for the sake of showing how they react on the proposals here advocated.

1. *The Mathematical Argument against Debt Redemption*

This argument at any rate is a respectable one. It may be stated shortly as follows :—" There is no reason

[1] Ricardo's discussion was in the form of an article in the *British Encyclopædia.* He inclines to a Capital Levy, *if* there could be security against the creation of fresh debt.

for redeeming the debt now more than at any other time, or at all, for redemption imposes an additional burden which may always justly be left over to posterity to undertake." This argument is reinforced by pointing to the burden borne by the present generation, and leaving the next generation to take care of itself. So far as this argument is used seriously—and it will be used seriously by many people—it has far more weight against a Sinking Fund than against a Redemption Levy. As pointed out in the comparison of the Sinking Fund method, a Sinking Fund gives little present relief and is effective because of the cumulative result in a period of years of compound interest. That is why Sinking Funds are always "raided" when they have been going some time. But the Redemption Levy, since it deals with the debt in a capital form, can be arranged to take present advantage of the credit which it will itself create in its own period—twenty-five years upon the $2\frac{1}{2}$ per cent basis, and it is thus possible to "anticipate" from the commencement some of its results. One such anticipatory scheme has been set out above. Many others are possible. That a burden is, and must be, imposed is not denied—for this would be to fly in the face of arithmetic; but it is urged in opposition to the mathematical argument, which is, after all, a very abstract one, ignoring the financial, fiscal, and economic facts, that under the Redemption Levy it is possible in one form or another to do better justice between generations than has ever been possible with the old rough-and-ready Sinking Funds.

2. *The Instinctive Argument against Debt Redemption*

The action of instinct in opposing the redemption of debt is worth analysing, and the analysis will throw more light on the method of the Redemption Levy. Many holders of property do not want to see the debt redeemed. They are in "no hurry about it." They are "very content" with their holdings in the debt, and averse to any extra burden; and all this is

"natural" enough. But there is also a deeper cause at work. Owing to the uncertainty of the times and the spread of ideas regarded as revolutionary, property "feels" itself threatened and it believes itself entrenched behind the debt. The feeling is an instinctive one, as deep and as old as the instinct for property itself. The dog and his bone are the proverbial illustration of it. It is no new thing in the history of society to find that property is jealous of its rights, and also sometimes misguided in defending them. And at the present time there is some danger that property may, through this inborn timidity, cling unduly to the defence which it thinks it finds in the existence of the debt. It is indeed a very plausible defence. The debt makes high taxation necessary; high taxation falls on property; property points to the taxes as the justification for its own rights. Such is the argument, and some property-holders may fear that if the debt is redeemed the defence will be removed, and that the taxes will be continued and used for other purposes—strengthening the very forces opposed to property. Not that this fear will be put into words, or escape denial if phrased by an adversary. But the feeling may still be there, and it is necessary to say a few words about it.

First, speaking generally, property certainly distrusts its own power unduly. Property rests on one of the strongest of all instincts—the desire for security, possession, and power. It is the abuses of property's rights which have brought about revolution whether in France or in Russia, and after every revolution, property is found (it may be in a new form) as powerful, or more powerful, than before. The best defence of property is, and always has been, justice in its method of acquisition and in the laws regulating its possession. So much in general terms.

And next, as regards the special problem of debt redemption and taxation, revolution will not be staved off by devoting the proceeds of taxes to the payment of barren interest. Property's defence lies in the multiplication and widest possible distribution of property.

This has been recognized in the case of the War Savings Certificates. This is recognized in the Redemption Levy in the inducements which it gives to thrift and saving and in the very form of the Levy itself, for the proposals are based throughout on payment by the State of its obligations in full, and on the increase of real capital—proposals which justify, as we shall see, the attacks which revolutionaries will certainly level against it, and which will warrant the owners of property in facing cheerfully the burdens sure to be required of them for social purposes, when and as the debt is redeemed.

3. *The Argument against Lowering the Rate of Interest*

The effect of the Redemption Levy in forcing down the rate of interest is likely to provoke a number of arguments in support of leaving the matter alone. It will be said that it is unjust to use the power of the State for such a purpose; that the ordinary motive for saving must not be in any way interfered with; that it is unnecessary; that it is revolutionary, and so on. Every reason except the true one will be alleged, and yet the true one is not far to seek, for it lies just below the surface in all of us: we all feel that if we "save" any money we should like to get as much as possible for it! The nature of public controversy, however, is not such that if this obvious and perfectly honest reason is avowed it will be received with much respect, and it entirely ignores the fact that the present high rate of interest is due to State action, and the fact that a low rate of interest carries with it an appreciation of capital values. It is too clear that the motive is really anti-social. It is just here that the individual's interest clashes with that of society. And it does so in two ways. A high rate of interest is anti-social (1) because the largest share possible of the National product should be reserved to encourage those who engaged upon the Nation's work, (2) because saving motived to get an

income as compared with saving directed to get a capital sum does not conduce to the progressive development of industry. This second consideration deserves to be amplified. Industry needs new capital on the cheapest terms possible—the more the better, the cheaper the better. There is an infinite number of material improvements to carry out at every moment, if only enough capital were available on cheap enough terms, if only consumption could be postponed whilst they are being finished! Allusion has already been made to Dr. Cassel's proof (from these considerations) that the rate of inteiest—the rate paid for postponement of consumption—can never fall below a certain figure so long as "saving" is individual; and the community has yet to be found which will make collective savings in any really considerable and "progressive" quantities.

These arguments might not be sufficient if the proposals of the Redemption Levy were (as seems at first to follow) to reduce the rate of saving by reducing the rate of interest. This result, however, paradoxically enough, does not necessarily follow from it. Historically, saving has been most rapid in eras of prosperity when the rate of interest has been low—for instance, in the Dutch Republic at its zenith, under George II in England, or in the 'nineties of last century. It is clear also that, so far as saving is directed towards securing an income, a lower rate of interest makes more saving of capital necessary, and it is therefore from the very natural desire not to save at all that we are all anxious to get the higher rate. The Redemption Levy is opposed (it has to be admitted) to this natural human laziness, but since the desire to save, so far as it is instinctive, is based on the desire for a "hoard" or capital sum, and is merely prudential so far as it is directed to an income, the Reaemption Levy is not thereby opposed to the instinct for property itself; it merely alters the social arrangements which are used to call the instinct into play, and alters them in a way which it has now been shown need not necessarily interfere with their development. And in this con-

nexion it must again be mentioned that the lower the rate of interest in a Redemption Levy the more real capital will be created—for there will be the less room for reinvestment of the debt paid off in the Levy itself.

Of course if it were considered possible to raise the necessary amount of loans without compulsion, no complaint whatever on the ground of the reduction of the rate of interest could arise.

4. *The Revolutionary Argument against Debt Redemption*

Since every writer, and also every reader, has his own conception of the meanings of the word " revolutionary " —and the word commonly means for each of us merely something to which we are individually unaccustomed—it will be better to begin this section with a definition. By " revolutionary " there are here meant forces which are directed against the mere existence of private property in any form. These forces represent all the thwarted instincts of all the thwarted lives in our civilization of to-day—the desire for beauty, colour, adventure, and all that Freudians mean by sex, and the desire for property which has not been able to realize itself. Now it is a primary doctrine of the " new psychology," which claims to render human action intelligible and hopes one day to make it intelligent, that a thwarted or repressed instinct results in distortion and disguise. And if this clue is followed in the present case, the revolutionary feeling (in the sense of our definition) may be found behind many apparently non-revolutionary battle-cries. The open revolutionary says, " Why pay off the debt ? Confiscate it." The " camouflaged " revolutionary says : " Why hesitate ? Raise the income-tax to 20s. in the pound, or impose a Capital Levy for the whole amount." Not that there are not *bona fide* supporters of the Capital Levy. Their arguments have already been dealt with. But they are asked now to realize that they draw much of their

support from revolutionary feeling—a feeling which will grow with what it feeds on. Their arguments are to some extent arguments of impatience; they want to get rid of the debt quickly or at once; and they are ready to receive support in blocking other proposals from forces which if once unloosed will be their masters. There is, or must be, room in life for other instincts than the instinct for property, and enough has been said above to urge this argument upon property-owners, but it is through the law, not through an anarchy of all the passions, that the "right of property" must be regulated and defined, and law (whatever the Legislature may do !) can never be reconciled with mere confiscation. All taxation is an exception grafted by common sense upon this rule. And it is just in proportion that taxation becomes confiscatory, that fiscal history shows all too clearly that it loses its sanction in common sense and becomes ineffective. That is one danger of the proposals for a Capital Levy. It has been the purpose of this book to show that a new road can be opened for dealing with the problem of the debt and National reconstruction on other lines. A short cut, indeed, is not promised. A real effort and some hard foot-slogging is necessary. But in this matter the old proverb is true that "the beginning is half the battle," for a Redemption Levy upon any considerable scale would in very few years "drown the debt." And if anyone is frightened of the new fiscal and financial expedient here advocated, if he says that the road leads into the mist of the future in which he cannot see his way, he is asked to remember that he is only yielding to fears of the same kind that have been awakened in every period of transition. Every new proposal brings change with it and is the result of change. It is enough to have shown that the new idea springs naturally out of the past and is a development rather than a reversal of ideas already embodied in the existing society. The proposal for a loan at a low rate of interest is a very old one, whether the loan be in fact a forced loan directly or enforced indirectly by a high rate of taxation cal-

culated to make good the loss upon its selling value. The suggestion has often been made that it is the business of the State to "encourage thrift" or "enforce economy." It is the claim of this book to have put these ideas forward in a new and practicable form, and in a form which shows in a novel and startling manner their immense effectiveness in solving the problem of Debt Redemption and of the creation of new real capital which is so urgently needed for the work of National reconstruction.

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